*ECONOMIC ASPECTS OF*

# THE SECOND BANK OF THE UNITED STATES

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# *ECONOMIC ASPECTS OF*
# THE SECOND BANK OF THE UNITED STATES

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## *IN APPRECIATION*

It is a pleasure to express appreciation to individuals and groups who have made possible this exploration into American economic times past.

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W. B. S.

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# THE SECOND BANK OF THE UNITED STATES

I

# Introduction

The Second Bank of the United States was founded in 1816 under a charter from the United States Government and functioned under this charter until March 3, 1836. The Treasury needed such an institution as a depository for the revenue and as an agency for the transfer and disbursement of its funds. Important business groups favored such an institution on the ground that it would help to "restore order to the currency," that is, to facilitate a return to specie payments. In the background of the agitation for the creating of the Bank there was also the interest of financiers such as Stephen Girard, David Parish, and John Jacob Astor who confidently expected that the Bank would improve the market value of their extensive holdings of United States bonds.[1]

Because of mediocre leadership, the Bank almost failed to maintain specie payments early in 1819. However, within a year it was operating smoothly and, generally speaking, it continued to do so until the end of 1829. The years between 1830 and 1836 were dominated by the struggle to prolong its life by a renewal of its federal charter. Failing to secure this authorization from Washington, the Bank did business under a charter from the state of Pennsylvania from 1836 to 1841. During these last five years its career was spectacular, and it ultimately failed early in 1841.

It is the purpose of this study to examine the relation of this bank to the economic development of the United States. What was its effect upon business and industrial activity? How effective was it as a fiscal agent for the government? What was its relation to other banks, foreign and American? What contribution did it make to the theory and practice of central banking?

The Second Bank has been a favorite topic for historians because of its involvement in politics.[2] Historians have been interested in its contest with President Jackson and its role in such

notable Supreme Court decisions as *McCulloch* vs. *Maryland* and *Osborn* vs. *The Bank of the United States*. These topics have been treated at length and with great competence in a number of histories and biographies. The selective emphasis in the present study is economic.

The economic context in which the Bank operated is discussed in Part I. An outstanding characteristic of this period is the remarkable upsurge of production and trade. This was due in considerable part to the rapid development of transportation facilities. State-incorporated banks were competitiors and sometimes wards of the Bank of the United States. The financial activities of the federal government and the retirement of the public debt played an important part in the history of this period. Long- and short-term international capital movements, the state of the commodity and stock markets throughout the world, and the balance of international payments generally had an enormous influence on the Bank and upon the entire American economy. Fluctuating prices reflected the state of affairs in world markets and particularly in the English markets to a degree not always sufficiently recognized. Then as now, the United States was a part of the world economy, not a self-enclosed system.

The policies and behavior of the Bank as they unfolded in this context are described in Part II.

An appraisal of the criticisms leveled against the institution, its functioning as a central bank, its contribution to American knowledge of techniques and ideas about banking, and its role in the economic progress of the period is attempted in Part III. Of course, the Bank was only one factor in a complex series of events, a circumstance which limits the evaluation of an institution of this sort.

The cast of characters in this drama included many colorful figures. Perhaps the most picturesque was President Jackson, enemy of the Bank. Outstanding in the pro-Bank camp was Nicholas Biddle, urbane, wealthy, a vigorous and resourceful leader, and president of the Bank from 1823 to 1839. The conflict between these two was much more than a personal conflict. Both men spoke for and represented clearly recognizable and coherent groups within American society. As viewed by the general historian, this duel has sometimes been interpreted as an assertion of power by the new West against the older East, by others as

an aspect of the rise of *laissez faire* and the decline of the centralizing tendencies inaugurated by Hamilton and others, and by still other students as a facet of the inherent antagonism which seems to exist between agrarian radicals on the one hand and men of commerce and finance on the other. In this study we have given less attention to these problems of general historical interpretation than to the contribution of these men to the story of American banking.

Andrew Jackson (1767–1845), seventh President of the United States, was born in poverty in a back-woods settlement in South Carolina. In 1788 he moved to Tennessee where he practiced law. Jackson served in the United States House of Representatives in 1799 and later in the United States Senate. As the commanding general of the American forces at New Orleans, he won a battle against the English on January 8, 1815, thereby becoming a national hero. He was a candidate for the presidency in 1824, but owing to what has sometimes been called the corrupt bargain, that high office went to John Quincy Adams. In November 1828, he was overwhelmingly elected to the presidency.

Like many enterprising settlers in Tennessee, Jackson supplemented his professional income by trading in land and commodities. From time to time he disposed of Tennessee lands to speculators in Philadelphia. The proceeds of these sales, taken in cash or notes, were converted into merchandise, transported to Tennessee, and sold in the stores of which Jackson was part owner.[3] He was known as a cool, shrewd man of business.

Jackson's early life was spent in an area where banking was very unsound.[4] In later years he was remembered as a man who profoundly distrusted bank notes; they seemed to him to be promises which were almost certain of default. A more friendly view of banking is contained in his expressions of appreciation for the advances made by the Nashville Bank to the agents of the United States in 1814. More indicative of his real views was his opposition to the creating of the Bank of Tennessee in 1820.

Jackson's motives for destroying the Bank of the United States have been diagnosed in various ways. Richard Hildreth suggests that Jackson and his friends wanted to destroy it in order to establish another from which they might reap the profits. There was indeed some consideration given to the establishment of another national bank in various periods of the Bank controversy. However, Hildreth's mercenary interpretation is inconsistent with Jackson's

character and with the characters of some of his political friends. Professor Dodd argues that Jackson raised the issue of the Bank to divert the attention of the country from such difficult issues as the tariff, state subsidized public improvements, and public land policy. In this view, Jackson is interpreted as thinking that the Bank issue was the easiest one on which to unite his party and to secure general public support. Jackson was a consummate politician and some such motive as this one may have played a minor part in his attack on the Bank. Bertrand Russell suggests that Jackson and his friends were animated by motives which were mutually contradictory and that this internal inconsistency led to the unsatisfactory outcome of their efforts. The Jackson men both wanted an effective monetary system and denied that it required skilled men to design and run it. They were baffled by what they saw in the mysterious field of finance. Jackson and his followers were friendly to both individualism and the increase of wealth but they feared and distrusted wealthy individuals. These contradictions in motivation unquestionably contributed to the ultimate lack of constructive achievement in American banking. In searching for motives, one should not overlook the importance of the widespread and sincere belief that the mere existence of such an institution as the Bank was an invasion of states' rights. More than a few of the anti-Bank men had sincere doubts about its constitutionality in spite of the approval of Madison and Marshall and other authorities on the constitution and its meaning. Some men disapproved of the Bank because its branches were undoubtedly an inconvenience to the state banks at times. Biddle often said that some of the animus against the institution came from capitalists who, prior to the Bank's well-organized dealings in domestic bills of exchange, had made profits from such transactions. The memory of the Bank's role in the crisis of 1818–1819 lingered in some men's minds. In short, a wide variety of circumstances led the men around Jackson and the anti-Bank men in Congress to oppose the institution. As for the President himself, his experience with banking on the frontier gave him legitimate grounds for disliking banks. Some of them must have seemed to him to be carrying on a highly profitable hocus-pocus for the benefit of a self-selected group of schemers at the cost of the general community. Banks were suspect and the Bank of the United States could hardly escape notice. Nor was it the more popular because it was a part of the "American system" of economic development

espoused by Henry Clay. Personal conviction and political expediency pointed in the same direction for Jackson.

In November 1829, Jackson informed Biddle: "I do not dislike your Bank any more than all banks. But ever since I read the history of the South Sea Bubble, I have been afraid of banks." As the conflict with the Bank developed, his hostility became stronger and his criticism sharper. By 1832, when he vetoed the recharter of the Bank of the United States, Jackson was talking like this:

> If we can not at once, in justice to interests vested under improvident legislation, make our Government what it ought to be, we can at least take a stand against all new grants of monopolies and exclusive privileges, against any prostitution of our Government to the advancement of the few at the expense of the many, and in favor of compromise and gradual reform in our code of laws and system of political economy.[5]

In the presidential campaign of 1828, Jackson came to believe that the branch at Lexington had acted in a manner unfriendly to his cause. In New Hampshire, the branch at Portsmouth had as its president a man who antagonized Levi Woodbury, Isaac Hill, and others soon to become powerful in the nation's capital. Biddle's avowed policy was to keep the Bank nonpartisan, but inevitably the majority of the Bank's personnel were in the anti-Jackson camp. The 1828 campaign set the scene for the attacks on the Bank.

Among the advisors to the new President were some uncompromising agrarian hard money men. Outstanding in this group was Thomas Hart Benton, a man of influence in the Senate and soon to be a friend of Jackson's. In the new party, there were many men who resented the very idea of centralized control of banking, partly because of its success in improving the quality of the American currency. This second group, while notably less vocal than the hard money men, was probably more influential. Jackson's party was under the influence of two extremist groups: the hard money men and those who, in fact, if not in theory, wanted soft money.

Among Jackson's advisers, Amos Kendall (1789–1869) occupied an important role. Kendall was born in Dunstable on the Massachusetts–New Hampshire border and graduated at the top of his class at Dartmouth College in 1811. In 1814 he migrated to Kentucky. There two years later he took charge of an important newspaper, the *Argus of Western America*. In 1826 he broke with his friend Henry Clay and gave his personal and editorial support

to Andrew Jackson. With the election of Jackson to the presidency, Kendall went to Washington where for six years following 1829 he was fourth auditor of the Treasury and for the next five years, Postmaster General. He was one of the men with whom Jackson consulted on financial matters and the one to whom he entrusted some important financial decisions. It is believed that Kendall had an important part in the composition of Jackson's famous charter veto message to Congress of July 10, 1832. At the time of the removal of the Treasury deposits from the Bank in 1833, Kendall was entrusted with the task of selecting the state banks which were to become government depositories. What were the views of this man on money, banking, and finance?

"Money," said Kendall, ". . . is anything which is universally exchangeable." [6] The government could not, in his opinion, confer this quality of exchangeability on money. The precious metals, on the other hand, did possess these attributes of universal acceptability. The role of the government was to package them in convenient quantities by the familiar minting process. Government paper money Kendall distrusted because of the likelihood of overissue. Because banks were better and more widely known than individuals, he conceded that bank notes had a certain superiority over personal notes. Convertibility into specie on demand was, of course, an essential quality which too few bank notes had in the area in which Kendall spent his early years as an editor. Of banks generally, he wrote in 1819:

> the very thought of these institutions is disgusting, yet it becomes our duty to endure the disgust for the purposes of extricating ourselves from their toils or rendering them harmless . . . All declare the system a public curse, but few can think of destroying it.
>
> How shall they be rendered less injurious? How shall they be diverted, from their usual course of favoritism and individual aggrandizement, to the public good? [7]

Because of what he saw in Kentucky in 1818–1819, Kendall had a high regard for the Bank's capacity to demand specie payments from state institutions. Even in this, its only effective role, he thought that it had brought disaster. Said Kendall, "It [the Bank] found there [Kentucky] a sound local currency, issued by a bank managed with signal caution, ability, and skill. It was mainly instrumental in driving that currency out of circulation without furnishing a substitute, and compelling the bank which issued it to stop payment." Having forced the Bank of Kentucky to suspend

permanently on May 4, 1820, the Bank of the United States failed to equalize the exchanges and to furnish bank notes for circulation in that area.[8]

On fiscal processes Kendall wrote:

> A treasury is a place where treasure is kept. The Constitution of the United States says, that "No money shall be drawn from the Treasury but in consequence of appropriations made by law . . ." The obvious meaning of this provision is, that the "receipts," or money received shall go into the Treasury and remain there until drawn out by authority of law . . .[9] But there was a class of men who desired to obtain the public money for private uses . . . An ingenious plan was hit upon to abolish the Treasury, make the Treasurer a book-keeper only, and take the money which should be in the Treasury for the use of merchants, speculators, and other borrowers. The plan was to hand over the public money to banks, not to be *kept*, but to be *lent* . . . To perfect the scheme, a Bank of the United States was created, being the most convenient instrument through which the public money could be applied to private purposes.[10]

Kendall's ideas about finance were understandable in view of his long residence in Kentucky. He arrived there at the beginning of fifteen years of very bad banking.[11] Because of the widely prevalent belief that banks were the solution to the lack of capital, the legislature authorized the establishment of forty-three state institutions in 1818. These were in addition to the State Bank of Kentucky which itself had thirteen branches and to the two branches of the Bank of the United States in that state. The craze subsided but it is not surprising that men like Kendall should have been hostile to banks. It was a major misfortune for the Bank that this man, with his newspaper training, his doctrinaire attitude, and his undoubted integrity should have attained great influence in Washington both at the White House and in the Department of the Treasury.

Kendall was a true spokesman for Kentucky on monetary matters as well as states' rights. Following the decision of *Osborn* vs. *The Bank of the United States* in 1824, Kendall's newspaper, the *Argus of Western America*, on May 12, 1824, said that the Bank of the United States was "the chief cause of all the aggressions upon the sovereignty of the States and the rights of the people which have proceeded from the Federal authorities . . ."[12] The Bank, said the *Argus*, leans "on the judicial arm, which not only awards to the corporation all she claims but seeks every occasion to humble the States." Kendall may have written this: it certainly represented his views.

Circumstances peculiar to Kentucky aggravated hostility to the Bank. Land titles in that state were confused and uncertain and subject to much litigation in which the Bank had an interest. Even more significant were statutes passed in 1821 in behalf of insolvent debtors. This "stay" law of 1821 forbade creditors to whom debtors had given bond from levying execution until the lapse of two years unless the creditor agreed to accept payment in notes of the Bank of Kentucky. These bank notes were greatly depreciated and the National Bank, in self defense, brought suit to test the constitutionality of this and other features of Kentucky law. In the cases of *Wayman* vs. *Southard*, *The Bank of the United States* vs. *Halstead*, and *The Bank of the United States* vs. *January* (10 Wheat .1) the Supreme Court held (in 1825) that out-of-state creditors were entitled to sue in the Federal Courts thereby rendering the Kentucky law inapplicable to them. The Bank thus escaped having to receive payment in depreciated Kentucky bank notes, the power of the states was further restricted, and both the Bank and the Supreme Court suffered in popularity for their stand against soft money and parochialism. In this litigation, the Bank was represented by its attorney John Sergeant and also by its recently retired president, Langdon Cheves. Needless to say, the *Argus of Western America* did not see eye-to-eye with the Supreme Court.

The leader of the Jackson forces in the Senate was Thomas Hart Benton (1782–1858) of Missouri. Born in North Carolina, he obtained a little schooling including a brief period of residence at the University of North Carolina. He early migrated to Tennessee and in 1815 to St. Louis. There he became the editor of the *Missouri Enquirer*. Benton had many of the picturesque qualities traditionally ascribed to the frontiersman. In 1813 he fought a duel with Andrew Jackson which ended with Jackson's being carried from the field. Four years later, after migrating to Missouri, he fought two duels with an attorney named Lucas. On the second occasion, he killed Lucas. Benton entered the Senate of the United States in 1821 as the first senator from Missouri. There, like many men from the Mississippi Valley, he was for a time a follower of Henry Clay. In 1824, he broke with Clay and joined forces with his one-time enemy Andrew Jackson. By 1829, he was spokesman for the administration in the Senate.

Benton's views on currency, banking, and the relations between the Treasury and banks are set forth at length in Chapter XII. He

is well and correctly known as a hard money man, a friend of gold, a believer in the divorce of the state from the Bank. Benton's biographer, Theodore Roosevelt, in a masterpiece of understatement said that "Benton's knowledge of financial economics was not always profound." What is harder to determine is the motivation of his uncompromising opposition to the Bank. Was it a simple devotion to a gold currency and a hatred of the unreliable bank note issues of his day? Was it an objection based on a conviction about the Bank's constitutionality? Or was it based on political expediency and self-interest? Benton seems to have been emotionally sincere even if not always intellectually coherent on the subject of currency and banking. His views on the constitutionality of the Bank were shared by many men of his day although they were not the great authorities on the meaning of the Constitution. An attitude such as his was natural enough in a man who had spent much of his life in the trans-Allegheny region where banks were rightly suspect. His anti-Bank record antedates the accession to power of Jackson and his party. Furthermore, Benton fought the battle against the Bank of Missouri where it cost him dear.[13] The sincerity of his beliefs on banking and currency is beyond question.

A recent writer has characterized Benton as intellectually able, generally learned, and fond of facts. On first reading, his speeches compare favorably with the florid and diffuse oratory that fills the *Register of Debates in Congress*. On more careful examination, however, they are less impressive. He seems not to have been familiar with the best thought of his time on currency and banking matters. On monetary questions he compensated for his lack of coherence and rationality by an irrepressible crusading zeal.

Benton's intransigence on the subject of hard money did not prevent him, however (in 1830), from representing Missouri in the case of *Craig* vs. *Missouri* (4 Pet. 410). In 1821, Missouri had authorized the establishment of loan offices to issue what the Supreme Court finally decided were bills of credit. These certificates were made receivable for taxes, wages, and salaries of state employees, and in payments for salt, etc. They were not given legal tender power. Benton strongly resented what he termed to be the improper manner and tone of addressing the free, sovereign and independent state of Missouri. He said that the certificates were issued because of the deficiency of the currency and ample means had been provided for their ultimate redemption. They

were not bills of credit, in his opinion. The construction assumed by the counsel for the plaintiff, Benton pointed out, implied that all bank notes issued by state chartered banks were also unconstitutional. At this stage of his career (1830) Benton seems to have been less opposed to soft money than to the encroachments of the power of the federal government on the states in general and on Missouri in particular. The Bank of the United States was not directly involved in this litigation. Nevertheless, this decision further strengthened the Bank.

The first of the Secretaries of the Treasury, of importance to the Bank, was A. J. Dallas, a Pennsylvanian, Secretary from 1814 to 1816. He was a vigorous proponent of the Bank in the days when Congress was considering the legislation which called it into being. William H. Crawford, a Georgian, Secretary of the Treasury from 1817 to 1825, was especially important because of his influence on the policies of the Bank in its formative years. Crawford's letters and reports have a breadth and statesmanlike quality that contrast favorably with the other secretaries here mentioned. Richard Rush, another Pennsylvanian, was Adams' Secretary of the Treasury and held office from 1825 to 1829. During his secretaryship he was on cordial terms with the Bank and its officers. At a later date, however, he became a bitter critic of the institution. During Jackson's presidency, the turnover in the secretaryship was rapid. In 1829, Samuel D. Ingham of Pennsylvania was appointed and served until 1831. His letters and reports suggest a decline in the cordiality that hitherto had existed between the Treasury and the Bank, but unlike some of his successors he was able to see some use for such an institution. One of his reports contains an interesting discussion of business instability and the accompanying unemployment. So great was the resulting waste of productive power that, in his opinion, it offset the gains from the mechanization of industry which was proceeding at such an astounding rate during this period. His conclusion was that changes in the monetary arrangements of the government should be made slowly and cautiously lest they become one more cause of instability of employment. Ingham was replaced in 1831 by Louis McLane of Delaware. When McLane was promoted to the office of Secretary of State in 1833 William J. Duane of Pennsylvania took over the Treasury. Duane served only a few months. He was soon forced to resign owing to his opposition to President Jackson on the question of the removal of the Treasury deposits from the Bank

in the last quarter of 1833. Roger B. Taney of Maryland was appointed to take Duane's place. This temporary appointment took him from the Attorney Generalship to an office in which he could make his anti-Bank convictions effective. In the cabinet meeting called to discuss the annual message of 1829, Taney had supported Jackson in his opposition to the Bank. Congress refused to confirm Taney's appointment. In 1834, therefore, he was replaced by Levi Woodbury of New Hampshire. Woodbury was unquestionably a sound Jackson man.

Turning to the cast of characters in the Bank, we find four presidents: William Jones (1817–1818), Langdon Cheves (1819–1822), Nicholas Biddle (1823–1839), and Thomas Dunlap (1839–1841). Some other figures were McIlvaine, Jaudon, and Cowperthwaite, cashiers for the Bank's home office in Philadelphia. John Sergeant was attorney for the Bank. General Thomas Cadwalader was a roving ambassador who represented the Bank on various missions. Of all these, Biddle was by far the most important.

Nicholas Biddle (1786–1844), a member of a wealthy Philadelphia Quaker family, was in many respects the antithesis of Jackson. He entered the University of Pennsylvania at the age of ten and was ready to graduate at thirteen. Denied his degree because of his youth, he entered Princeton University where he received his degree in 1801. At the age of eighteen he went to France as secretary to General Armstrong, the United States Minister. He was among those present at Napoleon's coronation as Emperor of France. In December 1805, he left his post in France to travel through Europe. Greece, in particular, made a profound impression on him. By February 1807, he was in London, where, for a short time, he was secretary to James Monroe, then American Minister to England.

On his return to the United States Biddle studied law. At this time he fell under the influence of Joseph Dennie of the *Port Folio*, a leading literary periodical published in Philadelphia. Biddle joined what was once referred to on the title page of this periodical as a "Confederacy of Men of Letters" and became a contributor to, and later an editor of, this journal. In 1811–1812, he wrote the narrative of the Lewis and Clark expedition which was later prepared for the press by Paul Allen. Biddle's lively interest in literary matters led him to correspond with some of the important literary figures of his day. Later when he became the leading banker in the United States, he was regarded as the scholar in business, and

many college literary societies, such as that at Williams College, invited him to address them or to accept honorary membership. Few bankers of his day were capable, as he was, of beginning a letter on banking with a quotation from Dean Swift. Nor were many able to carry on correspondence in passable French.

Biddle's intellectual attainments, his wide experience, his wealth and social prestige all combined to qualify him for leadership in the financial community. Especially was this true of the Philadelphia community. He was a friend of Presidents Monroe and Adams, the former of whom appointed him to the board of directors of the Bank in 1819; the latter frequently received him at the executive mansion. Adams mentions having been a dinner guest at the Biddle home, Andalusia, on which occasion the other guest of distinction was the illustrious de Tocqueville. John Tyler, a member of the House Committee that investigated the Bank in 1818, was a dinner guest at the Biddles', on which occasion the guest of honor was Joseph Bonaparte, the ex-king of Spain.

On the most controversial issue of banking theory of his day, Biddle belonged to the "banking" rather than the "currency" school. Bank notes might be either companions or substitutes for specie, he said. In the former role, he denied that they would raise "prices in the country . . . above the level of the prices of the world." [14] Again he said, "The great advantage and the great security of a Bank paper [notes] is that it rises and falls with the business wants of the community . . . it contains within its own bosom the means of correcting its own excesses." [15] On the other hand, Biddle was keenly aware of the need for public regulation of bank notes to prevent them from superseding specie. In 1832, he advised that the small notes of banks be suppressed and that penalties for failure to maintain specie convertibility be made more severe. Until the events of 1837 somewhat changed his point of view, Biddle was definitely in favor of a "mixed" currency. Such a currency, if properly regulated, combined the convenience and portability of paper with the trustworthiness of a metallic medium.[16]

Biddle was acquainted with the best thought on economics of his day. He was familiar with Ricardo's writings and took issue with the opinions expressed in his posthumously issued *Plan for the Establishment of a National Bank.*[17] He mentioned keeping a copy of Smith's *Wealth of Nations* at hand for reference.[18] The American edition of Say's *Principles of Political Economy* was ed-

ited by Clement Biddle, a second cousin, and was doubtless known to him. During one of the congressional investigations of the Bank, he cited Senior's essay on the *Transmission of the Precious Metals* (1828) as his authority in discussion of the 1825 crisis. On this same occasion he also quoted Tooke's *High and Low Prices,* Sir Henry Parnell on paper money, and Mushet on the currency.

Biddle and Gallatin corresponded frequently and at considerable length on banking and currency matters, especially during the period in which Gallatin was writing his *Considerations on the Currency and Banking System of the United States* (1831). Toward his American contemporary, Gouge, Biddle took a lofty attitude. Gouge, he said, lacked practical experience in banking. Gouge's book was "made with the scissors, and what is worse, a dull pair." [19]

Biddle's public expression of his ideas and bold exposition of his policies in the press did not make his way easier but rather more difficult. Had he been able to live up to his professions of never explaining or denying misinformation and half truth in the press, had he been willing to do what his great rivals did at the Bank of England, namely, let his opinions be known through the channel of rumor or through the Bank's actions, Biddle would probably have been less criticized than he was.[20] The historian must be grateful to him for his open letters to Adams and Clayton and for his lengthy and almost academic discussions of banking and currency questions with congressmen. They reveal a great deal about his mind and policies. But some thought, at the time, that he was too fluent. His enemies tried to damn him by calling him a literary man.[21]

In 1814, Biddle was elected to the Pennsylvania Senate, from which he resigned in 1817. At the request of President Monroe he prepared a report on trade regulations which appeared in 1819 under the title, *Commercial Regulations.* President Monroe appointed him a government director [22] of the Bank, a position which sought him rather than he the position.

Biddle joined the board of directors of the Second Bank of the United States in January 1819, a most critical period in its history. What he saw there made him unsympathetic toward easy loan policies in the frontier areas. He became convinced that the policies of the Bank should be determined in Philadelphia. Boards of directors of the branches, he thought, should be "rather ornamental than useful." When it came his turn to be president in

1823, he determined that the control of that widespread organization should be centralized.

In 1822, immediately prior to his election to the presidency of the Bank, Biddle stated that the president should "if possible . . . unite in his person these qualifications, talent for business — standing with the govt. & residence in Phila." Biddle possessed these attributes in the highest degree. He went on to say,

> I say *talent* for business rather than what is commonly called a man of business — for without meaning at all to disparage the knowledge of details which men of business are presumed to possess I am quite satisfied from what I have myself seen at the Bank that the mere men of business are by no means the most efficient in the administration. The fact is that the misfortunes of the Bank which grew principally out of the injudicious extension of the Western Branches were actually occasioned by the men of business & their errors were precisely the faults into which the men of business were most likely to fall. They trusted the Western people with money — as they trusted them with goods — and suffered themselves to be deluded by the visions & currencies of equalizing exchanges more & liberal habits of thinking would have easily dispelled . . .[23]

Biddle brought "liberal habits of thinking" to the Bank. There was sophistication and novelty in his policies. Such things as compensatory action by the Bank to offset fluctuating government balances at the Bank, short-term foreign borrowing to avoid the unstabilizing effects of specie movements, the acute awareness of the economic costs of deflationary policies, and willingness, on occasion, to try to avoid them, were beyond the purview of most bankers of his time. When Biddle called on John Quincy Adams, on January 29, 1828, the conversation turned on the authorship of the line *Video meliora proboque, deteriora sequor.* Adams had the satisfaction of being able to discuss the authorship, Biddle the unhappy fate of exemplifying the quotation in his life.

Biddle's role in the history books is quite as much that of politician as of banker. It is clear to anyone who has read his correspondence that he wielded enormous influence in Congress. The votes of that body suggest that his influence was comparable with that of the President of the United States himself. Because of this widely held view, he has often been given the benefit of the doubt in cases where the evidence is circumstantial.[24] An outstanding case of this was the suggestion that the Nashville branch of the Bank was established in 1827 with a view to gaining the good will of the man who appeared most likely to be the next president of the United States. In the opinion of this writer, the Nashville

branch was established for reasons which were not primarily political. Biddle was indeed a political banker but he was not always so much of a politician as has sometimes been supposed.

His ideas on politics were derived both from his liberal education and from his extensive experience. Concerning the democratic process he expressed himself as follows to his fellow alumni at Princeton in the latter part of 1835:

> The peculiar merit of free institutions is, that they embody and enforce the public sentiment — the abuse which has destroyed them is, that they execute prematurely, the crude opinions of masses of men without adequate reflection, and before the passions which excited them subside.[25]

Democratic institutions could have neither permanence nor value unless they expressed the will of an intelligent and educated community. On the occasion of the laying of the cornerstone of Girard College, of which Biddle was president of the board of trustees, he foresaw the ultimate triumph of education over brute force.[26] There were times, however, when privately he had misgivings about what he saw in the political world of his day.

In 1834, John Quincy Adams characterized Biddle as follows:

> The president is a citizen of Philadelphia, whom any man in this hall may be justly proud to call his friend; a man of eminent ability, of a highly cultivated mind, of an equable and placid temper, and in every other relation of life, of integrity irreproachable and unreproached; a man, too, independent in his circumstances, and to whom the loss of his office could scarcely be felt as a misfortune.[27]

The ex-president took a very different view of his successor in the White House. When Harvard College conferred the degree of Doctor of Laws on President Jackson, Adams, a member of the Board of Overseers, refused to attend the ceremony because, as "an affectionate child of our Alma Mater . . . [he] . . . would not be present to witness her disgrace in conferring her highest literary honors upon a barbarian who could not write a sentence of grammar and hardly could spell his own name." [28]

More than a hundred years later, Mr. Hammond praised Biddle's intellectual resourcefulness and administrative drive but added that his management of the Bank was outstanding for its ingenuity rather than its rightness.[29] William Graham Sumner, while admitting that many of the charges brought against Biddle's management of the Bank were groundless, nevertheless took an

unfavorable view of his fundamental integrity. "Any one who has carefully studied the history of the Bank, and Biddle's 'Statements' will come to every statement of his with a very disagreeable sense of suspicion." [30] This is a serious indictment.

Under attack and in the heat of battle Biddle undoubtedly resorted to what we now consider a public relations technique. Under fire, he presented the most favorable facts in the most favorable manner. Some of his testimony before the numerous congressional committees which looked into the affairs of the Bank suggests that he did not always refresh his memory by reference to documents.[31] Furthermore, the character of his opponents and the use they made of what they knew must have curbed any tendencies to complete candor that he may have had. His statements were undoubtedly affected by a psychological development that was an understandable product of the long-continued conflict. The Bank and its survival became for him not merely a matter of the preservation of a useful institution but also a matter of "principle." He was determined that the United States should not be dominated by the "banditti" in Washington and that he must do everything in his power to preserve the economic amenities. The emotions associated with this type of belief in a cause often have subtle psychological consequences: twisted perceptions, convenient lapses of memory, and a certain amount of self-deception. Some such development as this may have been at the root of the discrepancies which one finds between his public and his private utterances and between the facts and what he said were the facts. In approaching Biddle's statements it is well to approach them with suspicion. Such an attitude is appropriate to the utterances of any human being. It is especially appropriate to public figures in long-continued conflict situations. But the overtones of Sumner's statement are distinctly unfair. The idea that Biddle was guilty of calculated deceit was hardly just.

Redlich, after a thorough study of Biddle's administrative and banking techniques, characterized him as "an early example of a typical nineteenth-century business executive." [32] Concerning his executive ability, his resourcefulness, his capacity to lead his organization and create the right kind of spirit of coöperation within it and his sheer capacity for getting things done there is general agreement. The quality of ruthlessness that one finds in such men was less noticeable in Biddle than in some of the men with whom he associated. John Jacob Astor was a contemporary and associate

of Biddle's. Comparison with Astor and other contemporary entrepreneurs is in Biddle's favor.

Friends and enemies of the Bank agreed only in exaggerating its power in American affairs. Always an important part of the economic story of our country in this period, the Bank of the United States was not as dominant as either its friends or its enemies supposed. As we study it, however, one question is inescapable: if the Bank had been strengthened rather than abolished as a federal institution in 1836, might not banking in the United States thereafter have been more effective than it was in the development of the United States?

*PART ONE*

# THE AMERICAN ECONOMY

II

# Production and Trade

*1816-1841*

The period from 1816 to 1841 was one of very rapid and somewhat uneven economic growth in the United States. Observers were unanimous in their appreciation of the astonishing material progress America was making. It was in the forefront of what Secretary of the Treasury Ingham properly characterized as a "total revolution . . . taking place in many of the productive employments throughout the civilized world." From this rapid material development came some of the Bank's most difficult problems.

Population increased from 9,500,000 in 1820 to 17,000,000 in 1840, approximately 33 per cent each decade. The Mississippi Valley was being settled and new states were being added to the Union. In the South, growth was especially rapid in the states of Alabama, Mississippi, and Tennessee, where population doubled or trebled. Ohio, Indiana, Illinois, and Michigan grew at a phenomenal rate: Ohio threefold, Indiana almost fivefold, Illinois almost ninefold, and Michigan about twenty-fourfold. The increase in production and trade in the Mississippi Valley is reflected in the growth of traffic through the port of New Orleans. Between 1817 and 1836 exports increased fourfold and imports more than fivefold. This occurred despite some diversion of traffic through the Erie Canal after 1824.

By 1840, more than three-quarters of the gainfully employed were working in agriculture. Earlier this percentage was even higher. The incomes of three-quarters of the population were vitally affected by the market for farm produce. Cotton production increased with especial rapidity, about fivefold. The production of other agricultural products increased by only a moderate amount, judging by the export statistics. Exports of such things as flour, tobacco, rice, meat, fish, and naval stores showed year-to-year fluctuations. In the later cases the upward trend was not as

large as that of population growth. It was in cotton that the spectacular increase in production and export took place.

Expansion in the land in use occurred rapidly in the decades between 1820 and 1840. Public land sales (which, of course, were not the same as expansion in cultivated acreage) amounted to between $1,000,000 and $2,000,000 in most of these years. Two peaks of land sales occurred: one in the years 1817–1819 and the second between 1834 and 1839. In the year 1836, the United States sold almost $25,000,000 worth of public lands for which the minimum price was $1.25 an acre. This was the largest single year

*TABLE 1*

*Gainfully Employed in Various Occupations, United States, 1820, 1840*

| Kinds of Employment | 1820 | 1840 |
|---|---|---|
| Agriculture | 2,065,499 | 3,717,756 |
| Commerce | 72,397 | 117,575 |
| Navigation of the Ocean | ................ | 56,025 |
| Navigation of Canals, Lakes, and Rivers | ................ | 33,067 |
| Manufactures | 349,247 | 791,545 |
| Mining | ................ | 15,203 |
| Learned Professions | ................ | 65,236 |
| Total Population | 9,625,734 | 17,062,566 |

Source: United States Census, 1820, 1840.

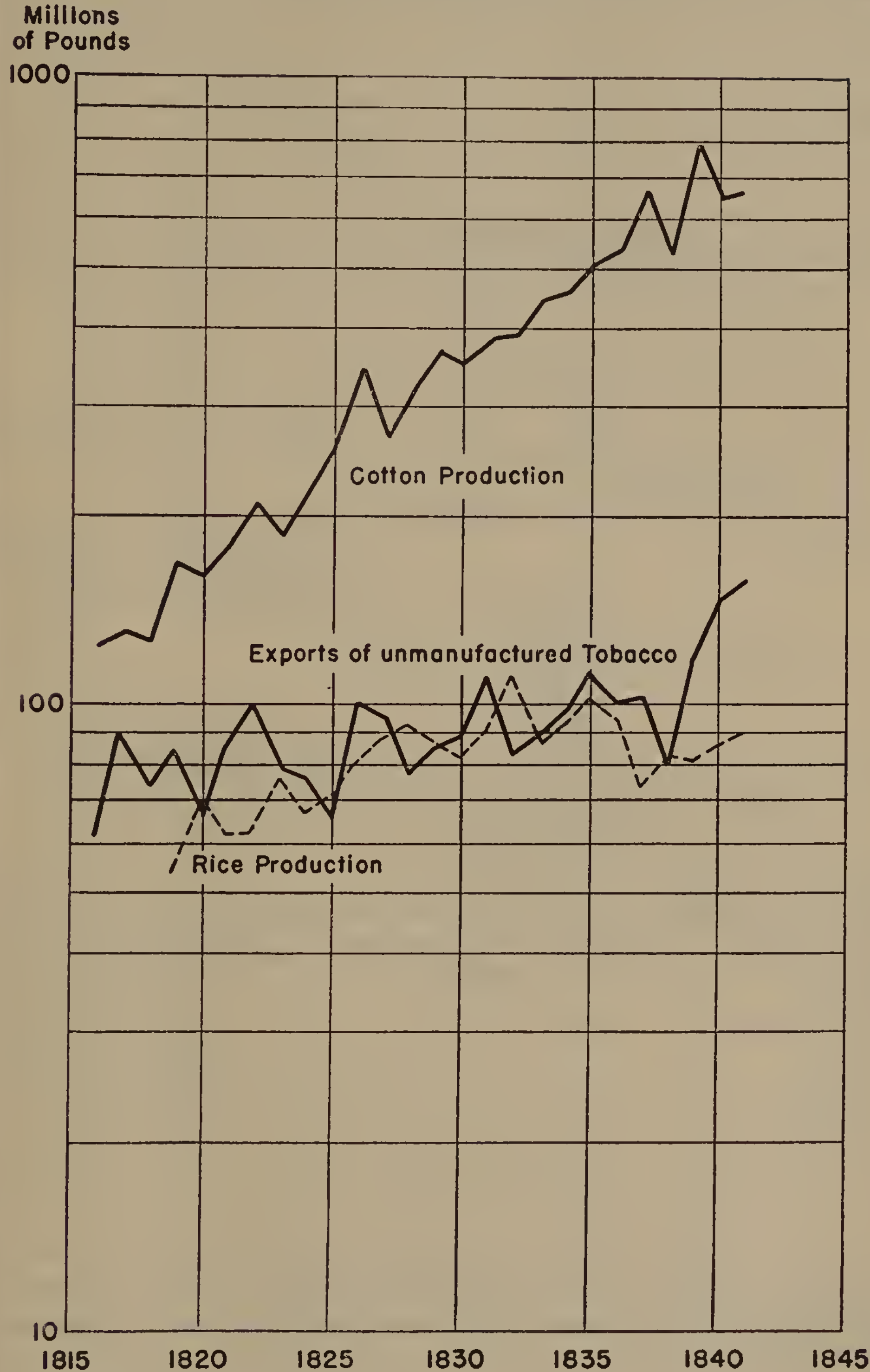
of land sales between 1815 and 1860.[1] In the South, sales were largest in Alabama, Mississippi, and Louisiana, and in the Middle West in Ohio, Illinois, Indiana, Michigan, and Missouri.

Manufactures doubled in the number of men employed – a little more rapidly than the total population increased. The increase in coal mining was especially rapid. In 1816 the estimated production amounted to 280,000 tons, and in 1840 to 2,474,000 tons, a ninefold increase. In 1820, 47,784 tons of sailing vessels were built in the United States, and in 1840, 106,518 tons, a more than twofold increase. The construction of steamships increased from 3610 to 14,685 tons, a fourfold increase. Cotton consumption, salt inspections, sides of leather inspected, and mail transported, increased more rapidly than did population. Among our data on manufactured products, only Baltimore flour did not keep pace with population growth in these years.

Capital invested in manufactures was estimated to be about $268,000,000. Especially noteworthy was the increased investment

*CHART I*

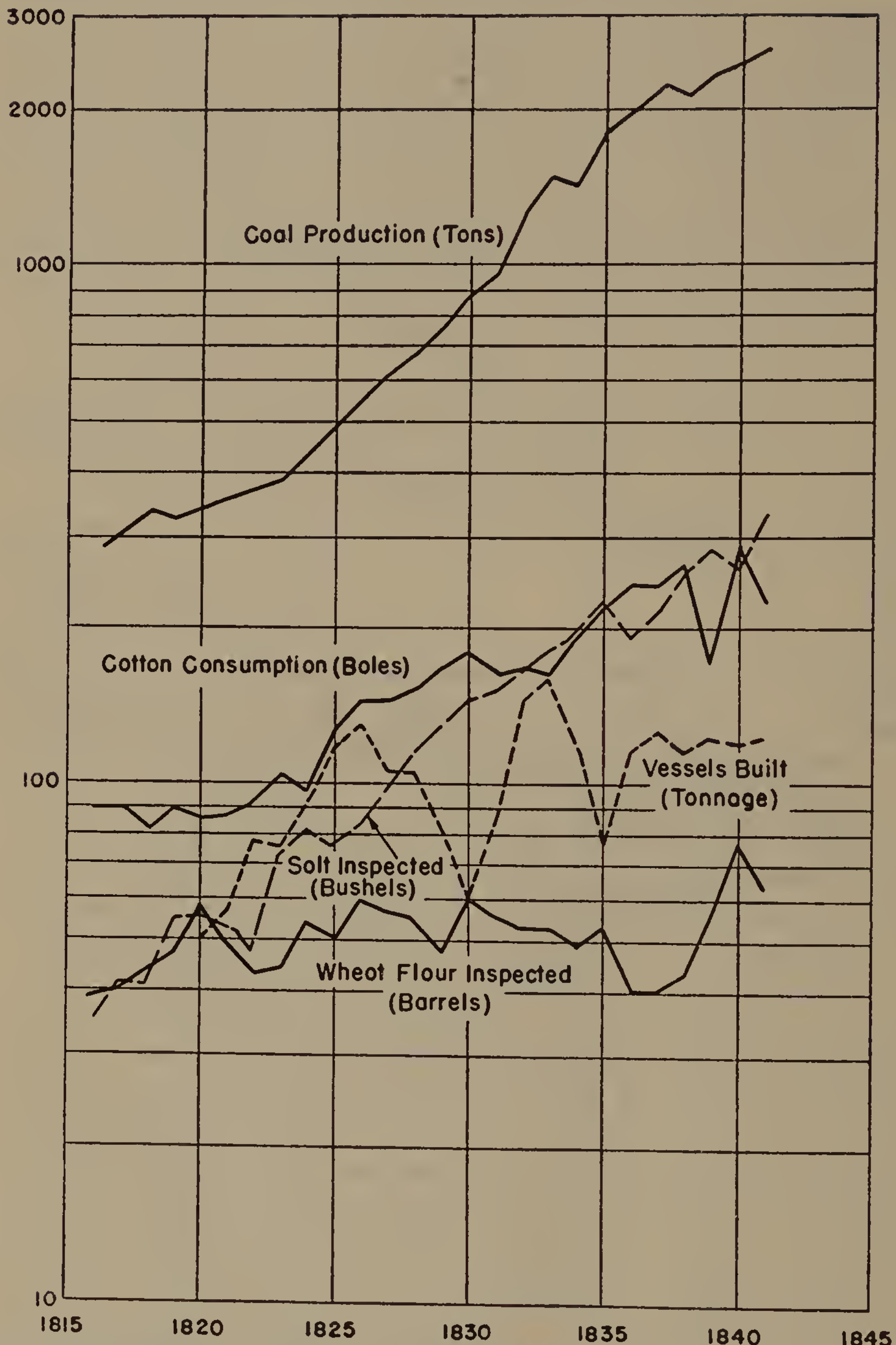
*Agricultural Output in the United States, 1816–1841*




For sources, see page 306.

CHART II

*Industrial Activity in the United States, 1816–1841*




Units: coal, 1000 tons; cotton, 1000 bales; salt, 10,000 bushels; vessels, 1000 tons; wheat flour, 10,000 barrels.

For sources, see page 306.

in the metal trades and mining that occurred during these years. The development of the textile industry in the years following the War of 1812 received more attention from the press than any other kind of manufacture. By 1840, the United States produced enough cotton piece goods so that its exports of this manufacture amounted to about $3,500,000. The figures however suggest that the press exaggerated the importance of the investment in manufactures. By 1840 investment in manufactures amounted to only about three-fourths of that attributed to commerce and only slightly exceeded the investment in retail dry-goods, grocery, and

*TABLE 2*

*Estimated Capital Invested in Mining and Manufactures in the United States, 1840*

| Industry | Capital Invested | |
|---|---|---|
| Mills, flour, grist, saw, and oil | | $ 65,858,470 |
| Metal trades and mining | | |
| Cast iron, bar iron, and fuel | $20,432,131 | |
| Lead | 1,346,756 | |
| Gold | 234,325 | |
| Other metals | 238,980 | |
| Anthracite | 4,355,602 | |
| Bituminous coal | 1,868,862 | |
| Granite, marble, etc. | 2,540,159 | |
| Machinery, hardware, cutlery, small arms, miscellaneous | 20,620,869 | |
| Total | | 51,637,684 |
| Cotton mills | | 51,102,359 |
| Leather, tanneries, saddleries, etc. | | 28,532,191 |
| Woolen manufactures | | 15,765,124 |
| Distilled and fermented liquors | | 9,147,368 |
| Salt manufacture | | 6,998,045 |
| Furniture manufactures | | 6,989,971 |
| Printing and binding | | 5,873,815 |
| Carriages and wagons manufactures | | 5,551,632 |
| Other manufactures | | 58,284,780 |
| Total capital invested in mining and manufactures | | $305,741,439 |

Source: Compendium of the Sixth Census of the United States, pp. 358–364.

other retail establishments. Because of the size of merchants' inventories, writers of this period placed emphasis upon the variation in their size in their discussion of the business fluctuations of the period. Table 2 shows, in order of size, the investment in various lines of manufactures and mining in 1840.

Transportation and communication were revolutionized and provided a basis for America's economic growth. Between 1817 and 1837, New York State alone built 631 miles of canals. The Erie Canal, begun in 1817, was completed between Albany and Buffalo by October 1824 and formally opened in 1825. Canal tolls in New York increased from $5437 in 1820 to $2,034,882 in 1841. By 1841, the United States had about four thousand miles of canals; Pennsylvania and New York had almost a thousand miles each, and Ohio possessed about eight hundred.[2] By 1832, the canal system connecting Cleveland with the Ohio River was completed and following that the volume of traffic over the canal system of both New York and Ohio was enormous.

These enterprises, especially the early ones, were very profitable. Between 1817 and 1840 the New York State canal system made an impressive financial showing.[3]

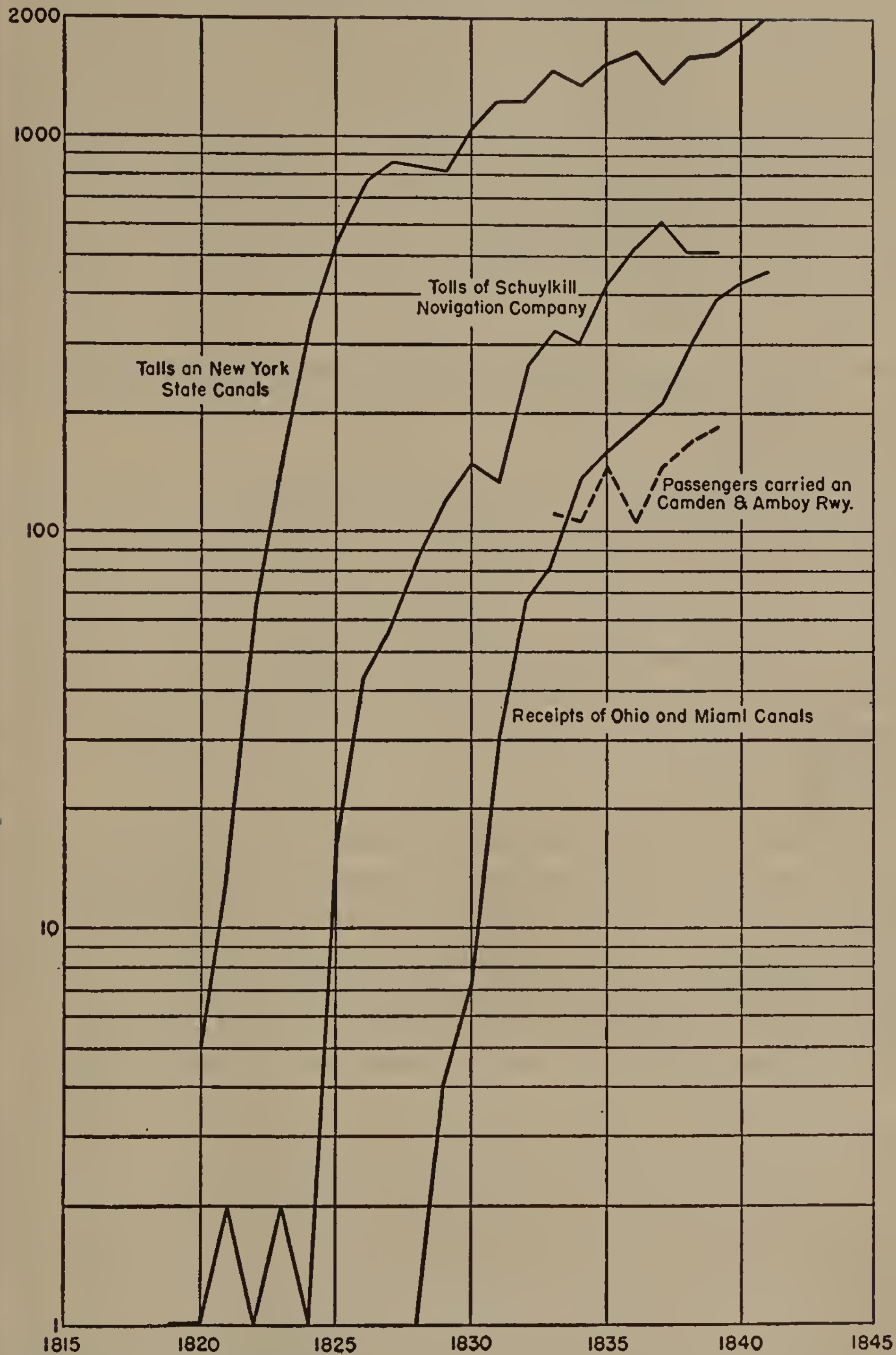
| | Total Costs, Original Construction, Repairs, Cost of Collecting Tolls, Interest on Loans, etc. | Receipts |
|---|---|---|
| Erie and Champlain Canals | $21,927,471.39 | $26,325,945.23 |
| Lateral Canals | 5,695,514.11 | 1,004,543.74 |
| | $27,622,985.50 | $27,330,488.97 |

This record invited imitation by other states. It is also noteworthy that the lateral canals which were built later were probably not as profitable as the first venture. The investment opportunity represented by connecting the Hudson River with the Great Lakes and Lake Champlain could hardly be duplicated. Construction of canals in Pennsylvania, Maryland, Virginia, Ohio, Indiana, Illinois, and elsewhere went on apace. The financial crisis of 1818–1819 may have given a stimulus to this type of enterprise. Because the areas beyond the Alleghenies were deficient in means of payment to their creditors in the East, Governor Brown, for example, seized upon this fact and used it as one more argument for canal building. He suggested that canals would facilitate the export of Ohio's agricultural produce and aid in "regaining and preserving the balance of our trade." [4]

Producers and shippers of agricultural products were beneficiaries of this revolution in transportation. Freight rates by canal were one-tenth of what they had been overland by wagon.[5]

CHART III

*Domestic Commerce of the United States, 1820–1841*




Units: $1000 or 1000 passengers.

For sources, see page 306.

Hezekiah Niles reported that the farm price of wheat produced on the shores of Lake Erie doubled because of reduced transportation costs. Owners of land along waterways in the West received a vast unearned increment. Cities such as Rochester developed at a rate which was regarded as astounding even in those days of rapid growth. Cleveland suddenly became a commercial center in the early 1830's. In some instances the ultimate outcome of canal building was disappointing, but the general result was a great increase in material prosperity. With improved and cheap transportation it is small wonder that land sales and public revenues from land sales increased in the Mississippi Valley in the 1830's. The ability to move agricultural products not only helped to solve the problem that had worried Governor Brown in 1819, but contributed significantly to the meeting of payments due to Europeans.

This development created many problems for the Second Bank. The abounding investment opportunities tempted state banks to overexpand their loans at the solicitation of local businessmen. The disciplining of the state institutions was one of the Bank's major tasks. To the challenge of internal trade the Bank effectively responded with extensive dealings in domestic bills of exchange. As the public improvements boom approached its peak, the Bank furthered this development by taking on the role of international investment banker.

The decade of the thirties saw the beginning of the railroad in the United States. By 1840, there were over 3000 miles of railway in operation and almost twice that number "in progress." [6] In 1841, the figure for railroad mileage was over 5000. Pennsylvania had almost 1000, Massachusetts, over 400, Georgia, over 600, and other states lesser amounts.[7] These railroads did a thriving business (mostly in passenger transportation) and the dividend rates of some of the better known ones varied from 6½ to 13 per cent.

Up to 1830 the federal government took a share in financing these new means of transportation. With Jackson's veto of the Maysville Turnpike bill on May 27, this policy was reversed. In this veto and in his later veto of the Bank bill, Jackson removed the federal government from the direction of two lines of economic activity that could most effectively be supervised from a nationwide or even more extensive viewpoint. By 1836, the federal government had spent over $5,000,000 in constructing the Cumberland road.[8] As late as 1838, it owned about $2,000,000 worth of

canal stocks.[9] These investments were small as compared with the sums currently being spent by the states.

Subsidies to the states for building canals and roads were made from the so-called 3 per cent fund, a fund in the hands of the federal government derived from the sale of public lands. Normally these payments were small, but in 1836 they amounted to almost $1,000,000 and in the next year to about $1,500,000. The chief recipients of this federal aid were Ohio, Indiana, Alabama, Mississippi, Missouri, and Michigan.[10] In 1837, the federal government distributed over $28,000,000 to the states. This distribu-

*TABLE 3*

*Authorized Bond Issues by the States, up to the Middle of 1838*

| State | For Banking | For Canals | For Railroads | For Turnpikes | Miscellaneous | Total |
|---|---|---|---|---|---|---|
| N.Y. | ............... | $13,316,674 | $3,787,700 | ............... | $1,158,032 | $18,262,406 |
| Pa. | ............... | 16,579,527 | 4,964,484 | $2,595,992 | 3,166,787 | 27,306,700 |
| Mass. | ............... | ............... | 4,290,000 | ............... | ............... | 4,290,000 |
| Maine | ............... | ............... | ............... | ............... | 554,976 | 554,976 |
| Md. | ............... | 5,700,000 | 5,500,000 | ............... | 292,980 | 11,492,980 |
| Va. | ............... | 3,835,350 | 2,128,900 | 354,800 | 343,139 | 6,662,089 |
| S.C. | ............... | 1,550,000 | 2,000,000 | ............... | 2,203,770 | 5,753,770 |
| Ohio | ............... | 6,101,000 | ............... | ............... | ............... | 6,101,000 |
| Ky. | $2,000,000 | 2,619,000 | 350,000 | 2,400,000 | ............... | 7,369,000 |
| Ill. | 3,000,000 | 900,000 | 7,400,000 | ............... | 300,000 | 11,600,000 |
| Ind. | 1,390,000 | 6,750,000 | 2,600,000 | 1,150,000 | ............... | 11,890,000 |
| Tenn. | 3,000,000 | 300,000 | 3,730,000 | 118,166 | ............... | 7,148,166 |
| Ala. | 7,800,000 | ............... | 3,000,000 | ............... | ............... | 10,800,000 |
| Mo. | 2,500,000 | ............... | ............... | ............... | ............... | 2,500,000 |
| Miss. | 7,000,000 | ............... | ............... | ............... | ............... | 7,000,000 |
| La. | 22,950,000 | 50,000 | 500,000 | ............... | 235,000 | 23,735,000 |
| Ark. | 3,000,000 | ............... | ............... | ............... | ............... | 3,000,000 |
| Mich. | ............... | 2,500,000 | 2,620,000 | ............... | 220,000 | 5,340,000 |
| | $52,640,000 | $60,201,551 | $42,871,084 | $6,618,958 | $8,474,684 | $170,806,187 |

Source: Report of the Comptroller of Banking for New York, 1839, 10th Census, Statistics of Indebtedness (1881), p. 270.

tion of the surplus, as it was called, was in form a loan but in fact a gift. It was used to carry forward internal improvements.

However, the state governments played the leading role in financing this transportation development for which by the middle of 1838 about $110,000,000 of bonds were authorized.[11] These issues were principally for canals and railroads but the states were not unwilling at this time to bond themselves for a variety of purposes. (see Table 3.) In many instances the canals were con-

structed directly under state auspices but often the states subscribed for stock in canal companies through the exchange of bonds for stocks. Railway construction was largely in the hands of private corporations many of which were aided by subscriptions of bonds in return for railway stocks.

Because of the ready market for state bonds in the 1830's the state debts increased in a nine-year period by an amount approximately equal to the federal debt reduction achieved between 1816 and 1835. Banks and merchants bought these state issues the more readily because they could be easily sold in Europe or used as collateral for loans in the United States or in Europe. For a number of years these state bonds found a ready market in Europe. Because of the miracle of having paid off the national debt by 1835 and because of the favorable contrast between the North American states and the South Americans who had defaulted in 1825, American credit was high. Another point of view, favorable to the North American states, was set forth by Alexander Trotter in a book published in London in 1839. He said that the bonds of the American states were in some ways superior to those of European states. These latter had been issued for purposes that "leave no tangible traces behind them of the sums expended, and yield no pecuniary return to defray the interest upon the debts contracted." [12] On the other hand, the expenditures of the North American states had been "professedly for objects which will make a return equivalent to the outlay." This was indeed the case in Pennsylvania which in 1843 had a total debt of over $39,000,000 and owned stocks in canal companies, banks, turnpikes, and bridges valued at about $37,000,000.[13] Unfortunately, these investments did not yield a satisfactory return at the critical juncture in 1841 and 1842.

In the long run, state bonds issued to finance internal improvements by northern states fared better than the bonds of southern states for banking.[14] Of the states which totally and permanently repudiated their debts, Mississippi, Florida, and Arkansas had issued bonds to provide banking capital. Michigan, the fourth state, issued bonds for internal improvements. The repudiation in Michigan was partial and it was based on a legitimate doubt on the part of the state authorities as to whether they had received a *quid pro quo* for their bonds.[15]

Indiana, Illinois, Maryland, and Pennsylvania, which issued bonds primarily to finance internal improvements, went through

a period of default on interest payments. This however was temporary. In Louisiana there were some serious financial irregularities [16] in regard to their bond issues but no outright repudiation. The Louisiana bonds had been issued to promote banking.

The Bank of the United States was heavily involved with the issues of Mississippi, Michigan, Indiana, Illinois, Maryland, and Pennsylvania. In the end, the Bank's owners and creditors suffered because these bonds were in its portfolio. They proved to be unsalable at the time when the Bank's great need was liquidity.

*TABLE 4*

*Merchandise Exports from the United States: 1816–1841*

| Year Ending Sept. 30 | Total Value of Exports (000,000) | Reëxports (000,000) | Domestic Products Exported (000,000) | Total Agricultural Exports (000,000) | Cotton Exports (000,000) | Manufactures (000,000) | Other (000,000) |
|---|---|---|---|---|---|---|---|
| 1816 | $81.9 | $17.2 | $64.8 | ........ | $24.1 | ........ | ........ |
| 1821 | 65.0 | 21.3 | 43.7 | $35.4 | 20.2 | $2.8 | $5.3 |
| 1826 | 77.6 | 24.5 | 53.1 | 41.3 | 25.0 | 5.5 | 5.4 |
| 1831 | 81.3 | 20.0 | 61.3 | 47.3 | 25.3 | 5.1 | 6.2 |
| 1836 | 128.7 | 21.7 | 106.9 | 91.6 | 71.3 | 6.1 | 8.0 |
| 1841 | 121.9 | 15.5 | 106.4 | 83.7 | 54.3 | 13.5 | 9.1 |

Source: Reports of the Secretary of the Treasury.

The threat of default (and the actual temporary default on interest payments) damaged the reputation of the Bank at a critical juncture. The ultimate default on principal in two cases cost the claimants on the Bank dearly after that institution went into liquidation.

Annual tonnage devoted to transoceanic trade almost doubled between 1820 and 1840. Even so, the percentage of American ships of the total entered and cleared in foreign trade declined from 90 per cent to about 70 per cent.[17] Ocean freight rates, said British shipowners and operators, declined.[18] American data for freight rates on cotton, flour, and ashes from the United States, however, showed no strong downward trend. In 1841 they were lower than they had been for many a year, but low rates in this year of depression hardly establishes a trend.

American commodity exports increased from about $60,000,000 to twice that amount. (See Table 4.) About 20 per cent of these exports were reëxports of such Spanish American products as sugar and coffee and Asiatic products such as tea and silk. Cotton made up about half or more than half of American-pro-

duced exports, tobacco and manufactures (cotton textiles) about 10 per cent each, flour and lumber each 5 per cent, and such commodities as rice, pork products, fish, and naval stores still smaller percentages.[19] About half of these exports were sent to Great Britain and her dependencies, 15 per cent to France and dependencies, and smaller fractions to Spain, the Netherlands, the Hansa towns, Mexico, and China.[20] Over the twenty-five-year span covered by the life of the Bank, merchandise exports were normally less in value than imports: the years 1821, 1825, 1827, 1829, 1830, 1838, and 1840 were exceptions to this rule.

In the latter years of the Second Bank's life, American cotton exports amounted to between 60 and 70 millions of dollars. In the Liverpool market, American cotton had come to play an increasingly important role, for it made up roughly three-fourths of the cotton arriving there. The appearance of the cotton bills was eagerly awaited by American bankers and foreign exchange brokers. The receipts from the sales of cotton were the most important single item in the American international merchandise accounts. Cotton prices bore indirectly on the federal budget through their effect on sales of public land. Sales of American cotton were made in Liverpool (and Havre). This foreign cotton market was sensitive to money market conditions, for many professional speculators did business with borrowed money and the mill owners were sensitive to the discount rate for bills of exchange of which they had many to sell. In this manner, American finance and banking, heavily dependent as they were on cotton, became tied to one of the world's least stable commodity markets. How vivid the awareness of all this was in the United States is indicated by the following statement issued by the Macon Convention in 1839: "Cotton has passed from the condition of a mere article of commerce, to the performance of the mighty function of being, in a great degree, the regulator of the exchanges, and the standard of values of our country." [21] This was especially true in 1839.

The commodity imports increased from an average annual total of $75,000,000 in Monroe's administration (1817–1825) to about $120,000,000 in Van Buren's (1837–1841). The amount of these goods reëxported declined both absolutely and relatively during these years. Of these commodities, textiles (cotton, woolen, and silk) occupied a leading place; iron and steel products came next, while tea, coffee, and sugar made up from 3 to 5 per cent

of the total. About one-third of the imports came from Great Britain and dependencies, a smaller fraction from France and dependencies, and a still smaller fraction from Spain and dependencies. Of lesser importance were imports from China, Mexico, Brazil, the Netherlands, and other areas.[22] The merchandise balance was unfavorable with every major trading area except Canada and the British Provinces.

Not only were imports normally in excess of exports, but they also showed an immediate and notable responsiveness to changes in the business outlook. In certain years, notably 1818, 1822, 1825, 1831, 1834–1836, and 1839, there was a marked increase in importations. (See Chapter VI, Tables 11 and 12.) The year 1828 was also a year of heavy imports, but in this case the explanation was anticipation of the upward revision of import duties under the tariff act of that year. American manufacturers were prepared to supply only a relatively small proportion of the things that Americans wanted to buy. Therefore, the propensity to import was high. American business was speculative and merchants varied their inventories as the speculative outlook changed. Furthermore, trade was dependent upon bank and mercantile credits.

Philadelphia figured more prominently than other northern and eastern cities as a channel through which manufactures reached the southern market.[23] This trade fact, as well as the purchase of cotton bills by the Bank of the United States, associated the banks of Philadelphia with southern interests. Trade as well as finance tied the Bank to southern institutions.

Both the internal and international merchandise trade were acutely sensitive to what was called a "derangement of private credit." Apropos of a discussion of the credit restriction by the Bank of the United States in 1833–1834, a committee of New York bankers wrote as follows:

> The importers diminish greatly their orders and their purchases of foreign exchange. The intermediate wholesale merchants, fearful to contract new engagements, are only anxious about the remittances necessary to discharge those already contracted. Those engaged in the exportation of the produce of the country, doubtful whether they can sell the foreign bills on which that exportation depends, give but limited orders for it. The country merchants and the manufacturers are no longer permitted to draw as formerly in advance on the cities for the products of the soil or of their industry. Men with small capitals, if at all extended, when disappointed in the remittances they naturally expected, are crushed. New enterprises and engagements of every description are avoided, and in many instances,

workmen are discharged, or a reduction of wages required . . . the true and efficient remedy consists in restoring confidence and credit.[24]

The high but nonetheless variable demand for imports was an aspect of the economic situation of which the Bank was clearly aware. Because inventories of imported goods were sensitive to changes in credit conditions, the Bank could influence the extent of foreign indebtedness of importers and to some degree thus protect its reserves of specie.

Auction sales were watched as a possible channel through which adverse business conditions in Europe might affect American interests. Large amounts of the textile imports at New York were sold at auction between 1818 and 1830.[25] Because of the somewhat exaggerated fear of foreign dumping of goods via the auction market, careful watch was kept of these sales. In 1832, fearing the effects of a possible business recession in England, Biddle wrote to Lenox at the New York branch: "The goods sold are sent to auction, notes taken, and then discounted, and with the proceeds, specie is shipped. To stop this most effectually, we should be very careful of accommodation in the way of discount to auctioneers. . ."[26]

Trade with China and the Far East generally made large demands on American silver up to about 1826. China alone took between four and five millions annually from 1820 through 1825. Because of this apparently insatiable demand for means of payment in this trade the Bank developed and popularized the long-dated bill on London for use by merchants sailing to the Orient or to South America.[27] In the year ending June 30, 1831 the Bank sold about $900,000 worth of these bills.

As one might expect, there was a marked seasonality in trade and finance in this period. Cotton began to move to the Atlantic and Gulf ports in October but the movement was slow because of the character of river transportation throughout the South. In the winter and spring months, cotton went to Europe and bills of exchange drawn on these shipments came to market in New Orleans, Mobile, Charleston, New York, and other cities. Foreign exchange bankers could count with reasonable certainty on being able to build up their British and French balances with the aid of the cotton bills.

While cotton was moving to Europe, balances to the credit of Southerners accumulated in Atlantic seacoast banks. In the late

spring and summer these accumulations were reduced when merchants from the South and West went to Philadelphia and New York to replenish their inventories.

Midsummer was a period of dullness in the centers of trade. The inherently seasonal character of the merchandise trade was reinforced by the devastating epidemics that swept American cities in the summer time. Occasionally cholera and more frequently yellow fever terrorized the population and paralyzed trade in cities as far north as, and sometimes beyond, the Canadian border. Midwinter was also a period of mercantile stagnation because of the freezing of the rivers and canals.

What do the records suggest concerning fluctuations in production and trade in this period? Agricultural production shows a clear year-to-year variation, but this was primarily due to the weather and natural causes, not to the general state of business. In manufactures there were fluctuations of diverse sorts over the years. Coal output declined in 1834 and again in the depression year 1838. Neither decline was very important. The New York State Canal tolls were less in 1837 than they had been the previous year, but that can be as easily explained by light traffic due to serious crop failures as by any reference to a "cycle." There was an apparent falling off in the leather industry in New York during the 1837 crisis. On the other hand, both salt production in New York State and flour inspections in Baltimore increased in this same year. Cotton consumption and cotton textile export data do not indicate any great sensitivity of that industry to "cyclical" influences. In Congress and in the public press, there were expressions of dismay about the unemployment in the mill towns from time to time. Without doubt, there was instability of employment, but unquestionably there was also a tendency to rhetorical exaggeration. Shipbuilding, an important form of industrial enterprise, varied from year to year, but the variations bore no close relationship to the state of "prosperity" or "recession." Business incorporations [28] in New England increased around 1825 and again around 1836, a familiar feature of the boom phase of the "cycle."

Total savings deposits as well as the average for each depositor in Massachusetts increased every year from 1834 through 1841.[29] However, the increase was so slight in 1837 and again in 1840 as to suggest that there were large withdrawals due either to unemployment or to panic. The New York and Albany records

(beginning in 1819) show that gains in savings deposits were slight in 1825, 1828, and 1832. Slight decreases occurred in 1834 and 1836 and a substantial decrease took place in 1837.[30] The records indicate the impact of the various recessions and the depression of 1837 in the cities and on the working classes engaged in manufactures and commerce. In the days of the Bank the off-peak years were not periods of profound depression.

The years of the Bank's life covered a period in which production increased much faster than population. There were some deviations from this upward trend, most of which took the form of a slowing up of the rate of growth. In 1837 and 1839 there was a decline in the previously high level of production and employment. Even in these years, however, the falling off of production and employment was not impressive by modern standards.

This was a highly speculative period in business. Speculative purchase of lands [31] was an important feature of the great booms that ended in 1819 and 1837. The investments in canals and railways had a speculative aspect. Speculation in the narrower sense of dealings in state and corporation stocks developed with great rapidity during these years.[32] Railway stocks were especial favorites. The techniques of manipulation and short sale were well understood. Speculation was also characteristic of the commodity trade.[33] Americans took a lively interest in reports of the state of, and prospects for, improved commodity prices at home and abroad. This interest was reflected in the newspapers which reported to Americans on weather and crop prospects in England, activity in the textile industry in Lancashire, and the state of the London money market.

The instability of commerce and finance was widely recognized. One of the hopes of the founders of the Bank was that it would remedy the "instability of the currency." In the debate in the Senate on March 25, 1816, Senator Barbour of Virginia said: "the present state of the circulating medium, causing a fluctuation and uncertainty in the value of property and products [is] greatly to be deprecated, and bringing with it a train of evils it would be almost impossible to enumerate." [34]

In retrospect it is easy to see that the founders of the Bank hoped for too much. Let us now examine the Bank's own structure and the character of the state incorporated banks which were both its wards and its competitors.

III

# Money and Banking

*1816-1841*

The Second Bank of the United States, created by Congress by the Act of April 10, 1816, was in operation by January, 1817. Seven millions of the capital were subscribed by the United States in 5 per cent government bonds. The balance of the thirty-five millions of capital was privately subscribed. Purchases of the stock were very heavy in Philadelphia, where 88,520 shares were taken. Charleston, Boston, New York, and other centers took lesser amounts, with New York ranking fourth.[1] The main office was located in Philadelphia with branches throughout the country. By April 1817, branches were located at Providence, Boston, Middletown, New York, Portsmouth, Baltimore, Richmond, Norfolk, Lexington, Charleston, Savannah, New Orleans, Washington, Cincinnati, Chillicothe, Fayetteville, and Pittsburgh.[2]

The federal charter provided that the President of the United States should appoint five of the twenty-five directors, with the advice and consent of the Senate. Only American stockholders were entitled to vote. Voting rights were made less than proportional to the number of shares owned, with a view to keeping the control of the Bank from falling into the hands of the aristocracy of wealth. Both provisions acted to produce an unanticipated result: the control of the Bank by insiders. The disenfranchisement of the foreign stockholders reduced the number of proxies that the insider group needed to collect. This carefully planned voting arrangement was seen as early as 1819 to permit "the collection of proxies by designing men." [3]

Regulations covering the business of the federally incorporated Bank were set forth in the charter as follows:

> The said corporation shall not, directly or indirectly, deal or trade in any thing except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in time, or goods which shall be the proceeds of its lands. It shall not be at liberty

to purchase any public debt whatsoever, nor shall it take more than at the rate of six per centum per annum for or upon its loans or discounts.

No loan shall be made by the said corporation, for the use or on account of the government of the United States, to an amount exceeding five hundred thousand dollars, or of any particular state, to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

. . . the bills or notes of the said corporation originally made payable, or which shall have become payable on demand, shall be receivable in all payments to the United States, unless otherwise directed by act of Congress.

. . . the said corporation shall give the necessary facilities for transferring the public funds from place to place, within the United States, or the territories thereof, and for distributing the same in payment of the public creditors, without charging commissions or claiming allowance on account of difference of exchange, and shall also do and perform the several and respective duties of the commissioners of loans for the several states, or of any one or more of them, whenever required by law.

. . . the deposites of the money of the United States, in places in which the said bank and branches thereof may be established, shall be made in said bank or branches thereof, unless the Secretary of the Treasury shall at any time otherwise order and direct . . .

. . . the said corporation shall not at any time suspend or refuse payment in gold and silver, of any of its notes, bills, or obligations . . . And if the said corporation shall at any time refuse . . . the person or persons entitled to demand and receive such moneys as aforesaid, shall respectively be entitled to receive and recover interest on the said bills, notes, obligations, or moneys, until the same shall be fully paid and satisfied, at the rate of twelve per centum per annum . . .[4]

As the Bank developed, it became necessary to define the relation of the Philadelphia office to the branches. Was the Bank to be one national bank? Or was it to be an association of semi-independent banks? [5] Generally speaking, Jones, the first president, envisaged the Bank as a unit. However, his administrative controls were so loose that some of the branches exhibited an almost anarchistic degree of independence. On the contrary, Cheves, the Bank's second president, seemed to be friendly to and approve of branch autonomy and responsibility. His program of allocating capital to the branches, the requirement that the branches keep specie reserves adequate to redeem their own note issues, and the making of the notes of the branches officially redeemable only at the office of issue made it appear as if the Bank were merely a collection of offices. But if this was Cheves's theory, his administrative techniques and predilections none the less led to further unification. When Biddle became president,

both theory and practice pointed in the direction of unity under the control of the home office in Philadelphia. Following the recharter of the Bank in 1836, the branches became agencies which were definitely subordinated to the interest of the Philadelphia office and its clientele.

The boards of directors of the branches were selected at Philadelphia from lists of local financial and business leaders usually submitted by the officers of the branches. The official rule was that the appointment and removal of officers at the branches rested with the local boards.[6] In fact the real power of appointment rested with the board of the Philadelphia office. Especially in the early days of the Bank, the presidency of a branch tended to be a part-time honorary office. Biddle did his best to increase its importance.[7] The cashiers were important officials. Through them the home office communicated its policy decisions to the branches.

The rules and regulations for the conduct of business were laid down by the parent board. As circumstances changed, directives regarding discount policy, the purchase of bills of exchange, and collections of indebtedness due from state banks emanated from the central office. Statistical reports were regularly and frequently submitted by the branches to the home office. After the calamitous experiences of 1817 and 1818, careful watch was kept over inter-branch indebtedness. Important policy questions such as purchase or sale of the public debt, international borrowing, and the development of new types of business were decided at Philadelphia. Some administrative discretion was left to the branches in the matter of credit rating of borrowers and the relations between the branches and the local state banks. Such discretion as the branches had was exercised within an administrative framework which became progressively well defined as the Bank became older.

The New York branch became a very large holder of public deposits. With the development of that city as the great port of the United States it was natural that the public revenues, mainly derived from import duties, should accumulate there. This was also an important point for payments of the public debt. To a lesser extent, the same was true of the Boston and Baltimore branches.

The branch at New Orleans had a phenomenal growth as that port developed. This branch became the most important branch

west of the Alleghenies and did a very large volume of business in both domestic and foreign bills of exchange. Its location made it the branch through which the specie imports from Mexico came to the Bank. Equally important was the fact that the notes issued at this branch were usually larger in amount than the issues of any other office. It supplied a paper currency to the merchants and traders of the Mississippi Valley.

Troublesome peculiarities developed in the branches located in Ohio and Kentucky. These branches, established at a time when the state banks of that area were in a very precarious condition, received large deposits arising from the sale of public lands. The branches there found it difficult to collect sums due them from state banks in 1818. Collections from individual borrowers were very slow. To the end of its life the Bank had an "Agency" in Cincinnati to liquidate the real estate it acquired during and after the crisis of 1819. This debtor area cost the Bank some dollars and a great deal of popularity.

Did the Bank have too many branches for effective control and economical operation? The branches at Middletown and Portsmouth were probably unnecessary. The branches at Cincinnati and Chillicothe were a source of trouble and loss in the Bank's early days. These branches were set up at the insistence of the Secretary of the Treasury. In general, branches were established with an eye to the convenience of the Treasury as well as the needs of business and there was ordinarily little or no conflict of interest between these two objectives. The excessive number of branches was not a serious problem for the Bank, either administratively or financially.[8]

The Bank was profitable and its dividend rate was about the same as that of the larger East-coast metropolitan banks. Save for the years immediately following the 1818–1819 debacle, the annual dividend was 7 per cent. From 1836 through 1839 the rate was 8 per cent annually. The stock was regarded as a gilt-edged investment in Europe and America. As time went on, an increasing proportion of the stock was owned in Europe.

The accounts of the Bank indicate the character and relative magnitude of its operations. Up to 1836, the accounts are clear and presumably accurate,[9] for the Philadelphia institution was required to submit official reports to the Treasury. President Jones said that the Bank was the first financial institution in the

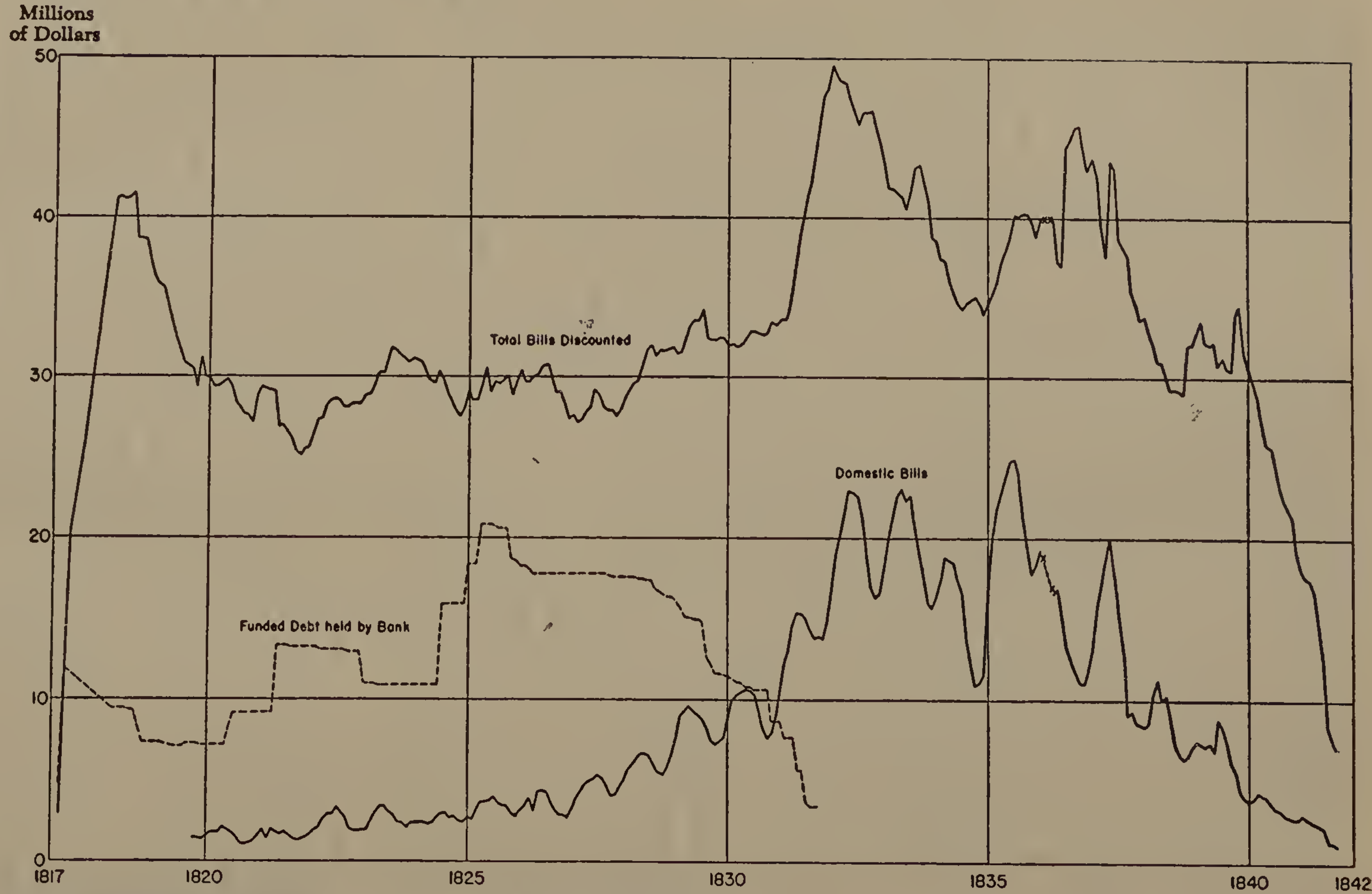
United States to keep its book by the system of double entry. After 1836, the records became more and more confused and obscure. Nicholas Biddle once replied to an inquiry about the meaning of an item in the statements of the Bank: "Your remarks . . . remind me of that fine phrase ascribed to Talleyrand, that speech was given to man to conceal his thoughts. So it is with the mere face of the Bank statement." [10] The lacunae in the Bank's reports, especially in 1836 and later years, suggest that Biddle's remark was more than a witticism.

Loans on personal security were always a large item so long as the Bank operated under a federal charter. These loans which were commercial in character were practically free from public criticism, a circumstance which was rare in the Bank's life. Loans on the Bank's own stock were notoriously large during the first two years of its existence. Strenuous efforts were made to reduce this type of loan immediately after the 1818–1819 crisis. Between April 1819 and April 1825 they were reduced from about $8,500,000 to about $5,500,000. Early in 1825, Biddle succeeded in reducing them rapidly by what may have been a substitution of loans on personal security in their place. The Bank made loans on the collateral security of United States bonds. This type of loan was encouraged especially in the weeks and months immediately prior to a public debt retirement operation. This was a part of a definite plan to stabilize the money market by preventing the government's accumulation of balances at the Bank and their sudden disbursement at debt payment time from alternately tightening and then easing the money market.[11]

As corporate and state security issues multiplied, the Bank had to consider their use as collateral. By 1826 their use was approved at the Boston branch and perhaps elsewhere. Four years later, Biddle explained to Jaudon that while the charter forbade the Bank to purchase state bonds it did not prohibit it from making loans on them as collateral. He suggested that Jaudon circumvent the law at the New Orleans branch and in the case of some Louisiana bonds arrange with some individual to buy them with money provided by the Bank through a collateral loan for which the Louisiana bonds were security.[12] In later years, the Bank acquired many stocks and bonds as the result of making loans of this sort.

In the latter part of 1835, when it looked as if the Bank might wind up its affairs, loans secured by Bank stock and other securi-

## CHART IV
*Earning Assets of the Bank, 1817–1842*




Total bills discounted is the sum of discounts on personal and collateral security.
For sources, see page 306.

ties increasingly took the place of loans on personal security. Following 1836, when the Bank operated under a Pennsylvania charter, collateral loans became the most important type of loan. The stock and bonds which the Bank had to take in lieu of payment of the loan proved to be a serious source of loss. The record of loans is set forth in Chart IV.

Domestic bills of exchange became an increasingly important item in the Bank's assets as the institution developed. They were first listed in the Bank's statements in October 1819. Throughout Cheves's administration they amounted to about $2,000,000. After Biddle became president the domestic bills increased both relatively and absolutely, and in 1832 they amounted to over $20,000,000 and were about one-third of the Bank's total discounts and bills. In the year ending June 30, 1831, the Bank had purchased throughout the preceding year more than $40,000,000 of domestic and foreign bills.[13] Earnings from this source were estimated at between $150,000 and $200,000 in 1830.

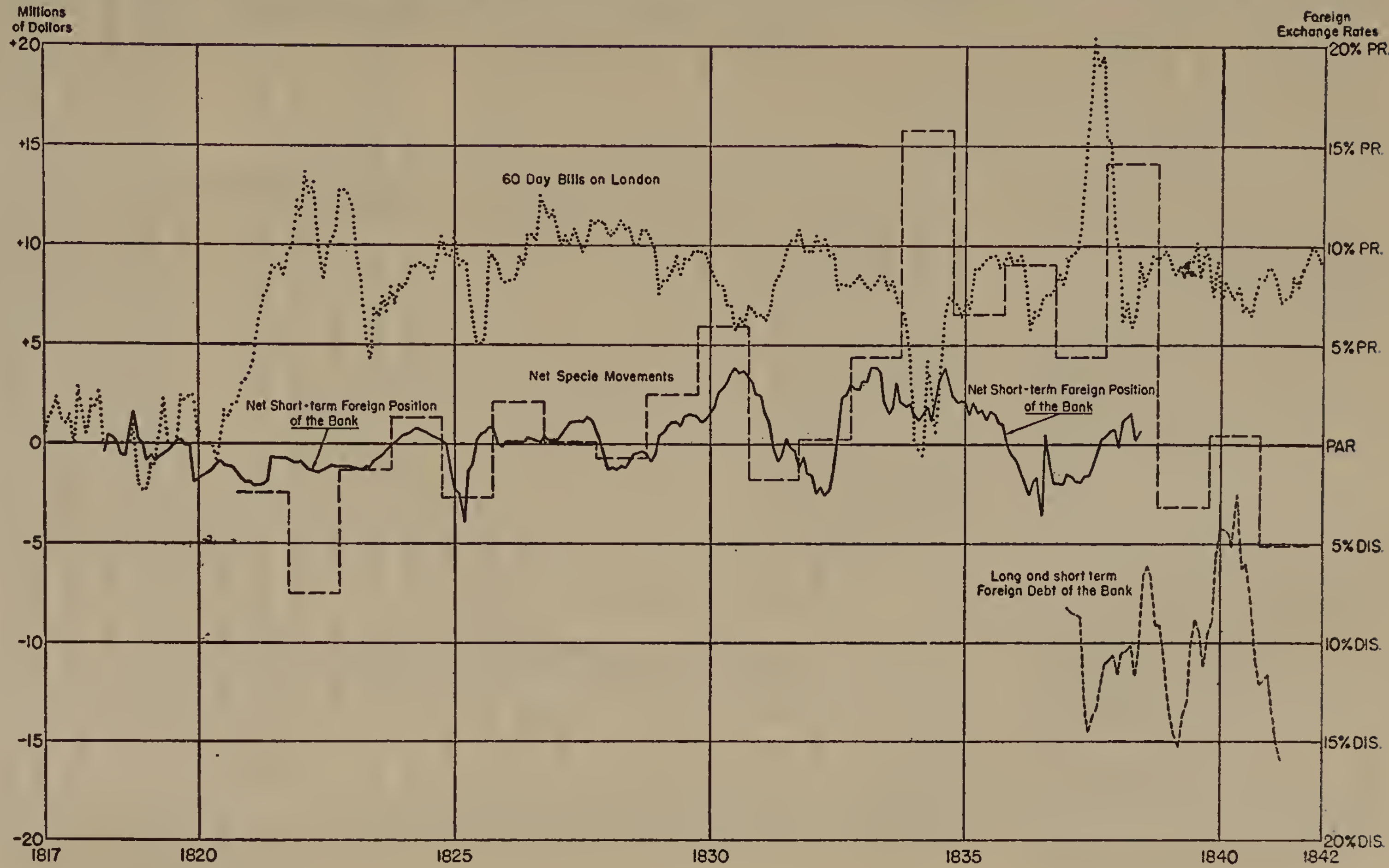
Biddle was very proud of the role that the Bank had played in this development. By this means it had been able to place its capital in areas where there had been a deficiency. The Bank's domestic exchange business assisted with the movement of America's great staples. To congressmen who came to the Bank as investigators he stressed this merchandising aspect of the Bank's activities. The merchants of Tennessee, he would point out, on shipping their products to New Orleans, drew bills of exchange founded on the proceeds of the sale of the goods there. These were either purchased or taken for collection (about half were taken for collection) by the branch at Nashville and remitted to New Orleans. At this point the Tennessee merchant or producer was in a position to settle for previously received loans or, if he was out of debt, he received the notes of the branch in payment. The Bank thus enabled the local shipper to receive prompt payment. A second stage in this process, he would explain, occurred when Tennessee merchants departed for, for example, Philadelphia, to purchase manufactured goods. On these expeditions, they would take with them either the Bank's notes (Tennessee notes in his favorite illustration) or drafts on the office at Philadelphia. This merchandise for Tennessee would be paid for and there would arise a balance of indebtedness against the branch at Nashville. This would be settled by means of a draft on the New Orleans branch, or the New Orleans branch would be asked to

remit either bills of exchange on England or bills on the northern and eastern cities. Such bills on the North and East sometimes arose from the shipment of merchandise to the North from (say) New Orleans, or sometimes they arose from the drawing of domestic bills of exchange on the northern correspondents of southern merchants to whom foreign bills of exchange had been sent. Because of its national coverage, Biddle argued that the Bank was uniquely qualified to render this service to the country in its domestic transactions. It became the only important dealer of this type. The claim that its charges for the service were moderate is borne out by the inability of competitors to do much of this type of business. One consequence of the Bank's success was the resentment of capitalists who had previously made a good living (and charged high discounts and service charges) in the performance of this function.[14] The Bank found these domestic bills useful in mobilizing its resources within the country, and they provided a mechanism of transfer from the West, where government balances accumulated, to the East where federal disbursements were heavy. They were the ideal type of self-liquidating transaction, as was so often pointed out.

In foreign exchange, the Bank did a steadily increasing business, especially after the middle 1820's. Early in its career, it secured the services of Baring Brothers and Company of London and Hope and Company of Amsterdam as correspondents. About 1826, Messrs. Hottinguer and Company of Paris were added to this list. Prior to 1829 the Bank had an "open credit" with Baring Brothers for £100,000; between 1829 and 1836, for £250,000; and from 1836 to the spring of 1837 for £250,000 with an extra credit of an equal amount on pledge of approved securities. The Bank's main source of foreign exchange was, of course, the cotton bills. It also purchased bills through brokers, one of whom was Thomas Biddle of Philadelphia. By 1830 the profits from this traffic in foreign bills amounted to between \$75,000 and \$100,000 a year.[15] The debtor-creditor status of the Bank in its foreign transactions is set forth in Chart V. The solid line indicates a creditor position when it is above the base and a debtor position when below as of the first of each month. In 1837 and the following years, the Bank contracted a number of long-term loans and a notable discrepancy arose between its short-term and long-term foreign indebtedness.

## CHART V

*Foreign Position of the Bank, Foreign Exchange Rates and Specie Movements, United States, 1817–1841*




For sources, see page 306.

Up to 1836, the Bank built up its foreign balances in the periods when foreign exchange rates were low, and went into debt when the rates were high, a process not only stabilizing in its effects, but profitable to the Bank.[16] Its large transactions in foreign exchange were regarded with misgivings by the Bank of England. Up to 1836, however, these operations were conservative both in intent and effect. At the time Biddle was planning to inaugurate his plan for dealing in Paris exchange he specified that the Bank's Paris correspondent "ought to be like its agent in London . . . of the highest character for solidity and prudence, at the head of the business, not at all speculative, not connected with political concerns, nor exposed to the shocks which all whose fortunes depend on the motions of Governments are liable to feel. . ."[17] After 1836, the Bank pursued no such conservative policy. That story will be recounted in Chapter XI.

The Bank was the leading foreign exchange banker in the United States.[18] Second to it stood the Brown firm of Baltimore and third, Prime, Ward and King of New York. Its preëminence in this field led to dominance in this market. Its selling price set the price for other sellers. In purchasing trade bills it encountered the problem that so often confronts the large buyer. As early as 1822 the officers at New Orleans recommended that the purchases of bills be made on secret instructions. "In our attempt to purchase," they said, "we have observed [with] great solicitude the very sensible effect upon the market created by its being known that the Bank is desirous of so doing and more particularly when a maximum price is fixed by our Board."[19]

These foreign transactions entailed the routine operations incident to them, such as the importation and exportation of specie and bullion. Letters of credit were rarely issued.[20] A technical device of which the Bank was proud was the issue of long-dated bills of exchange on its London correspondent for use in the trade with the Far East.

Another highly prized asset was the funded debt of the United States. At the time of its organization, the Bank received $7,000,-000 worth of 5 per cent "stock" in payment for the government's one-fifth interest. Personal subscribers for the stock also turned over bonds in payment for it. Early in 1818, the total funded debt owned by the Bank was about $9,500,000. This item increased to almost $21,000,000 in 1825 through direct purchases from the

government. By November 1831, these extensive holdings had been practically all paid off.

The item of banking house and such permanent expense items as the $1,500,000 bonus to the government for the charter were carried at a valuation that showed careful attention by the Bank's accountants to depreciation. Accurate valuation of assets was generally true up to 1836. After that date, asset valuation was badly inflated. Stocks were carried at a figure that was absurdly in excess of the market value or of any rational appraisal.

The Bank's specie reserves were larger than those carried by

*TABLE 5*

*Ratio of Specie to Current Demand Liabilities of Banks: 1818–1841*

| | | New York Banks [b] | | Massachusetts Banks | |
|---|---|---|---|---|---|
| Date | Bank of the United States [a] % | City Banks (All) % | N. Y. Safety Fund Banks % | Boston [c] % | All Massachusetts Banks [d] % |
| 1818 | 12 (March) | | | 17 | 20 |
| 1819 | 22 | | | 24 | 16 |
| 1820 | 33 | | | 20 | 23 |
| 1821 | 61 | | | 39 | 33 |
| 1822 | 38 | | | 11 | 14 |
| 1823 | 37 | | | 13 | 14 |
| 1824 | 32 | | | 18 | 20 |
| 1825 | 37 | | | 9 | 17 |
| 1826 | 19 | | | 13 | 21 |
| 1827 | 28 | | | 17 | 20 |
| 1828 | 25 | | | 12 | 17 |
| 1829 | 21 | | | 18 | 14 |
| 1830 | 26 | | | 21 | 14 |
| 1831 | 32 | | 6 | 9 | 8 |
| 1832 | 17 | | 9 | 12 | 9 |
| 1833 | 24 | | 9 | 12 | 8 |
| 1834 | 33 | | 9 | 13 | 9 |
| 1835 | 54 | 26 | 19 | 10 | 7 |
| 1836 | 30 | 21 | 15 | 10 | 7 |
| 1837 | 19 | 19 | 15 | 10 | 8 |
| 1838 | 40 | 18 | 15 | 20 | 14 |
| 1839 | 38 | 27 | 18 | 23 | 15 |
| 1840 | 15 | 27 | 21 | .... | 18 |
| 1841 | 24 | 26 [e] | 17 | .... | 19 |

Sources:

[a] Bank of the United States records. This ratio is between specie and the total of all deposits and notes in circulation as of Jan. 1 except for 1818.

[b] *New York Assembly Documents.*

[c] *Hunt's Merchants' Magazine*, II, 146. These data differ slightly from the data given by the Banking Commissioner of Massachusetts.

[d] *11th Annual Report of the Banking Commissioner of Massachusetts* (1861), p. 176.

[e] Safety Fund Banks of New York City.

other American banks. The actual practice, if not the theory of note redemption, called for large reserves. Specie at the Bank generally varied as the national specie import-export situation changed. The year 1831 was a notable exception, but as we shall see in Chapter X the situation was peculiar. Specie at the Bank did not bear a constant ratio to the amount of bank credit outstanding as is amply demonstrated in Table 5. This suggests that even before Biddle enunciated his managed currency plans in 1837 that the opinions of the Bank's officers supplemented specie reserves as determinants of credit policy.

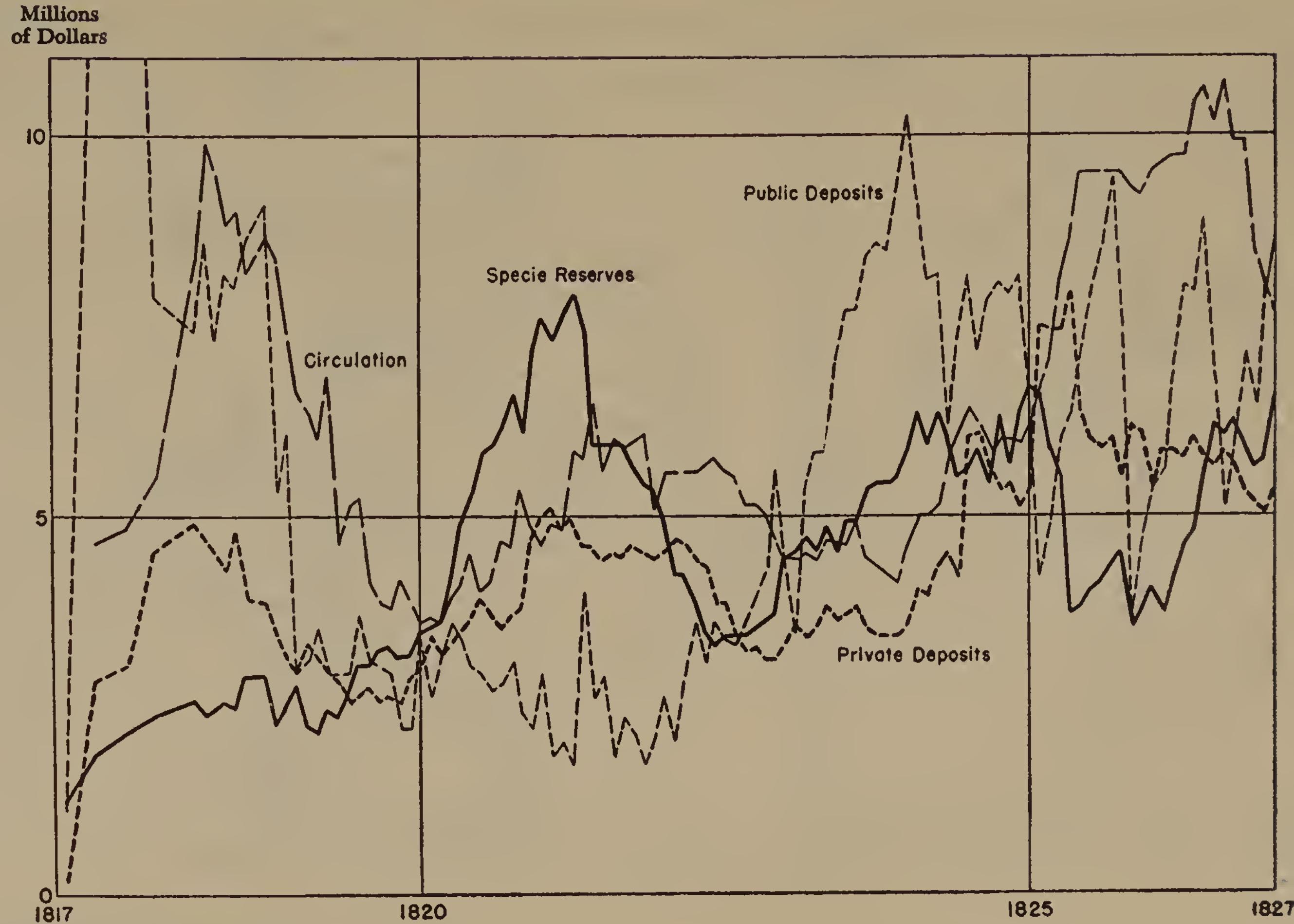
On the liability side of the balance sheet the deposits of the Treasury about equaled the deposits of individuals but with the difference that the Treasury deposits were very unstable. The deposit subject to check was a firmly established means of payment, especially in the larger cities. Its usefulness in "effecting payments with much greater facility than can be done with the precious metals" was well recognized.

The note issue, as was usual in banks of this period, was large. (See Chart VI.) It was comparable in size with its deposits. As the Bank's prestige increased, its notes circulated widely. The branch at New Orleans provided a note issue that permeated much of the Mississippi Valley. Toward the end of its life as a federal institution it was beginning to overcome the antipathy of the public for bank notes, a prejudice which was all too well founded on unfortunate experiences with state bank notes.

One of the great controversies in the Bank's history was over the place of redemption of notes issued by the various branches. Up to the latter part of 1818 they were generally convertible at any branch: after that date they were technically convertible into specie only at the branch of issue. (See Chapter VIII.) The Bank's notes were receivable by the government for duties and taxes and this attribute gave them wide acceptability. They were continually returning to the Bank as they were deposited at the various branches by the collectors of the public revenue and then exchanged between the branches.

Almost from the date of organization, the Bank's officers objected to the requirement that the notes be signed by the president. The sheer physical labor involved in this routine operation was a serious limitation on the quantity of notes that the Bank could issue. Congress, though frequently petitioned to alter this requirement, refused to act.

*Demand Liabilities and Specie Reserves of the Bank, 1817–1827*




High point: 24.8, August 1817.
Circulation includes only notes payable on demand.
For sources, see page 307.

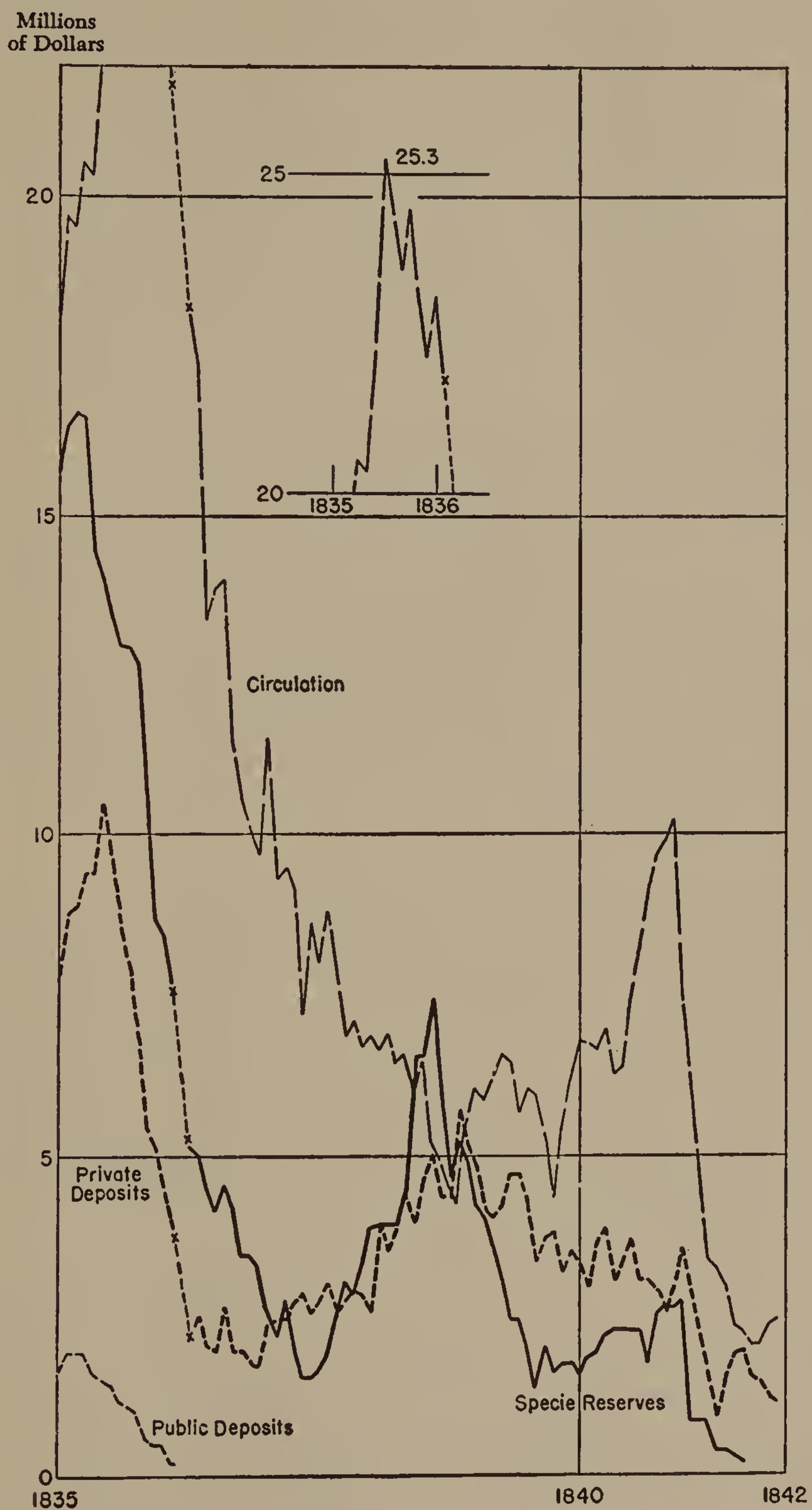
## CHART VIb

*Demand Liabilities and Specie Reserves of the Bank, 1827–1835*


For sources, see page 307.

CHART VIc

*Demand Liabilities and Specie Reserves of the Bank, 1835–1842*




For sources, see page 307.

About 1826 or 1827, Biddle decided that the Bank should issue branch drafts. These were drawn by the presidents and cashiers of the various offices on the other branches and home office and became substitutes for notes in making domestic remittances. They were issued in convenient denominations of $5, $10, and $20 and sold, normally, at a small premium of ½ or ¾ per cent. In later years these drafts became the subject of controversy and Biddle defended them as substitutes for the Bank notes which it was physically impossible to sign in sufficient volume. He did not publicly stress the fact that the drafts were a substitute for premium-free notes. At the time of the inception of the branch drafts plan, Biddle was keenly aware of the profits which the Bank could derive from this innovation.

> The merchants remit our large notes to New York. These are either deposited directly with the office — in which case they operate as drafts without a premium, or else finding that they will not all be taken by you, [the New York Branch of the Bank] they are deposited with the State Banks. In these State Banks therefore, the merchants must keep accounts, and when they receive discounts they take these identical notes to you for duties . . . Now if instead of giving large notes, we give drafts what would be the effect? The drafts might it is true be deposited in other Banks in New York but more naturally they would be deposited directly with you and you would probably gain in general deposits and business since merchants would not be obliged to keep accounts in other Banks.[21]

In its relations with the state banks the Bank played a threefold role. First, it acted as the watchdog of the bank-note circulation. The branches were discouraged from paying out state bank notes and they were advised to send them once a week or more often for redemption, usually in specie or bills of exchange. Second, it occasionally made loans to solvent banks in temporary need. Such was the announced policy until the latter part of 1833. Third and most important, it acted as disciplinarian of the state banks through its collection of the balances owing to it arising from the ordinary operations of banking.

For purposes of control, the Bank preferred to be a creditor of the state institutions and that was generally the case. Demands for settlement for balances due or even the imminent possibility of such demands served to restrain the state banks in the granting of credits. Such moderation was especially necessary at times of specie export. Indebtedness to the Bank meant that when that institution was asked for specie it could divert this demand in the

direction of the debtor institutions. Therefore indebtedness to the Bank gave it some control over the other banks. In exercising this power, both Cheves and Biddle repeatedly affirmed that the Bank was neither rigid nor unreasonable in its demands. Neither the amount of indebtedness nor the form of payment nor the time limits for completing payment of balances due was rigidly defined.[22] Because of the frequency with which this policy of reasonableness was publicly stated one must surmise that some or many of the state banks thought otherwise. The changing debtor-creditor relationship between the Bank and its wards is set forth in Chart VII below.

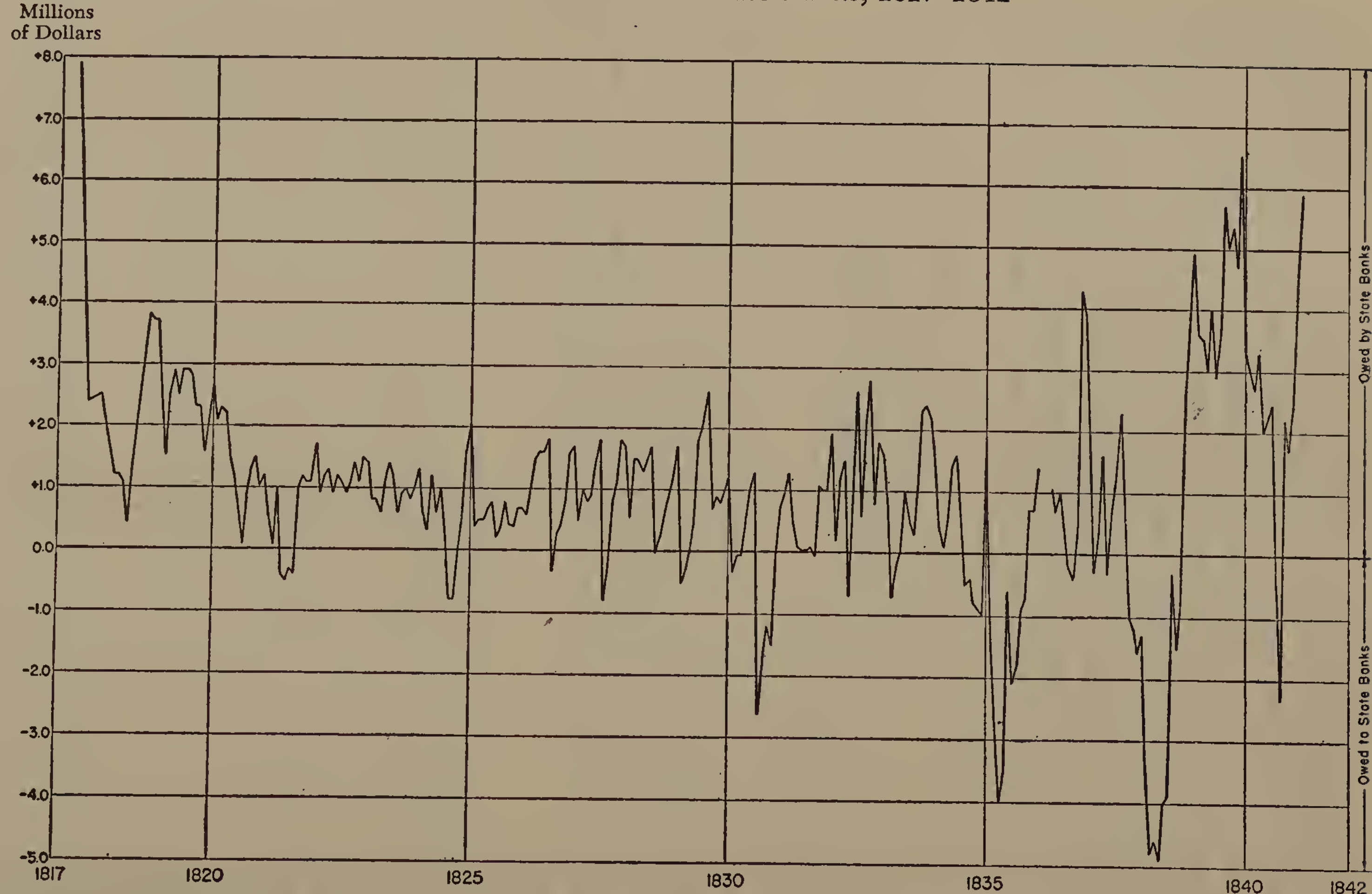
Generally speaking, the Bank was a creditor until the middle of 1834. The occasional short intervals during which the Bank became debtor occurred at government debt redemption time. The debtor status of the Bank in 1834–1835, 1838, and 1840 will be commented upon later.

On two occasions, the Bank sold its United States securities and brought the state banks into its debt: from the last half of 1825 through April 1826, and from February 1828 through 1830. These sales were made at a time when demand for specie for export seemed possible. The disposal of government securities was no routine feature of central bank control of the money market such as has become customary under the Federal Reserve System in recent years. What we would call open market purchases were forbidden by the charter. The sales noted above were emergency measures undertaken in order to strengthen the Bank rather than to restrain credit creation by the banking system. Biddle desired that the Bank's sales of bonds be kept secret although it is unlikely that secrecy was achieved. Such transactions were handled by brokers for the Bank and the fact that a certain broker was the agent for the Bank must have been generally known. The source of large sales by such a broker as Nathaniel Prime, who acted for the Bank in New York at this time, must have been correctly surmised.[23] The Bank was severely criticized for making these sales.

In its relations with the federal government, the Bank played many roles. Prior to 1834, it held the public deposits, except at minor outlying points where there were no branches. It placed the funds of the Treasury at points where they were needed to meet Treasury drafts. Payment of pensions was a more or less routine function, performed at some expense to the Bank. Also, both inter-

CHART VII

*Interbank Indebtedness between the Bank and the State Banks, 1817–1842*




This item does not include state bank notes held by the Bank.
For sources, see page 307.

est payments and the redemption of the public debt were handled through it.[24] Much of the clerical work connected with duty bonds and their collection was a part of the Bank's routine. It made monthly reports to the Treasury of its condition. From time to time, the presidents of the bank gave advice to the Secretaries of the Treasury: the advice was not infrequently unsolicited. The Bank acted as the agent for the purchase of foreign bills;[25] it provided a drawing account of £70,000 in London for the use of the Navy Department in supporting the Mediterranean fleet; lastly, it made short-term loans to the government.

One of the recurring problems was that of interstate transfer of funds. Revenues, especially the revenues from the sale of public lands, accumulated in the West and South. Federal disbursements, on the other hand, were heaviest in the North and East in payment for the performance of routine functions of the government and more significantly in payment of interest and principal on the public debt.[26] These transfers for the government amounted to about $12,500,000 in 1830, a year in no way exceptional in this regard. Similar in pattern although much smaller in amount was the internal transfer problem arising from the pattern of Bank earnings and dividend disbursements. Earnings made at widely scattered points were distributed to owners of Bank shares at points on the east coast. For example, in 1823, shares in the Bank were domiciled as follows: New York, 40,287; Maryland, 38,490; Pennsylvania, 37,269 and South Carolina, 29,685. By contrast, residents of Tennessee owned 191 shares, of Kentucky, 337 and of the comparatively populous state of Ohio, 712.

One of the Bank's minor functions was that of agent for foreign banks and investors. The Bank of England used its advice and facilities in the collection of protested American bills of exchange. It had a deposit in the Philadelphia office up to the time when it refused to accept the deposit of the Bank of the United States. Dutch investors often provided in their loan contracts that the Bank be their agent for the receipt of both interest and principal. This relationship was, however, of negligible importance to the Bank and the public.

The Bank's activities were mainly directed toward the business public rather than other banks. Loans were made on personal security, on collateral security, and by discounting bills of exchange. Although it was much the largest bank in the United

States, it made only about one-fifth of the personal loans, as is shown in Tables 6A and 6B.

*TABLE 6A*

*All Banks and the Bank of the United States Compared*

| Jan. 1 | No. of Banks All | No. of Banks The Bank | Loans and Discounts (000,000 omitted) All | Loans and Discounts (000,000 omitted) The Bank | Specie (000,000 omitted) All | Specie (000,000 omitted) The Bank |
|---|---|---|---|---|---|---|
| 1816 | 246 | | | | $19 | |
| 1820 | 308 | 1 | | $31 | 20 | $3 |
| 1830 | 330 | 1 | $200 | 41 | 22 | 8 |
| 1835 | 558 | 1 | 365 | 52 | 44 | 16 |
| 1840 | 722 | 1 | 463 | 35 | 33 | 1 |

*TABLE 6B*

*All Banks and the Bank of the United States Compared*

| Jan. 1 | Circulation (000,000 omitted) All | Circulation (000,000 omitted) The Bank | Deposits (000,000 omitted) All | Deposits (000,000 omitted) The Bank |
|---|---|---|---|---|
| 1816 | $68 | | | |
| 1820 | 45 | $4 | $36 | $7 |
| 1830 | 61 | 13 | 56 | 16 |
| 1835 | 104 | 17 | 83 | 12 |
| 1840 | 107 | 7 | 76 | 3 |

Sources: Data for All Banks from U. S., *House Exec. Doc. 172*, 26 Cong., 1 sess., p. 1375. Data for the Bank of the United States for 1820 and 1830 from U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., pp. 204 ff. For 1835 the data are from U. S., *Sen. Doc. 128*, 25 Cong., 2 sess. For 1840, from Pennsylvania, *Senate Journal*, vol. 2.

The Bank's discount rate was never more than 6 per cent, the maximum rate. Sometimes, notably in 1830 and 1831, the Bank loaned at 4½ and 5 per cent. Hence, an increase in its discount rate was not possible as a means of reducing the amount of its credit outstanding. Therefore the Bank had to rely on direct methods at such times: for example, it advised against loans to auctioneers; it advised or required a curtailment of loans on Bank stock; it suggested to branches that they reduce loans on personal security and invest in the more liquid domestic bills; and in various ways it attempted qualitative control. Instructions were often given for the branches to "keep within limits," by which was meant that the branches should not increase their aggregate of loans. On other occasions, reductions were ordered, reductions which were sometimes scheduled as to date and for which the various branches were given quotas.

More or less regularly the Bank was confronted with the tendency to "over-trade." Given an improvement in business or a depletion in inventories the Bank might anticipate an increase in merchandise imports. Because these imports were often purchased on long mercantile credits, the Bank might also expect a demand for foreign bills some of which was delayed beyond the time when the original impulse had ceased to act. This mechanism was well described by Condy Raguet, a Pennsylvania legislator and student of finance, in the following words:

> The depreciation of money enhancing the prices of every species of property and commodity, appeared like a *real rise* in value, and led to all the consequences which are ever attendant upon a gradual advance of prices. The false delusion of artificial wealth increased the demand of the farmer for foreign productions, and led him to consume in anticipation of his crops. The country trader seduced by a demand for more than his ordinary supply of merchandise, was tempted to the extension of his credit, and filled his store at the most extravagant prices with goods vastly beyond what the actual resources of his customers could pay for, whilst the importing merchant having no guide to ascertain the real wants of the community but the eagerness of retailers to purchase his commodities, sent orders abroad for a supply of manufactures wholly disproportioned to the effective demand of the country. Individuals of every profession were tempted to embark in speculation and the whole community was literally plunged into debt.[27]

At the time of importation, merchants were permitted to defer payment of duties by giving what were called duty bonds. Because of the availability of government credit for import duties merchants were sometimes tempted to make larger imports than might otherwise have been the case. Treasury receipts from import duties accrued to it with a lag. The Bank had to anticipate a certain increase of demand for bank credit with which to meet payment on these duty bonds.

Under its federal charter, the Bank was expected to perform a variety of functions. Generally speaking, it provided the country with a trustworthy and trusted currency. It exercised some control over both note issues and the amount of loans made by state incorporated banks. It served its most important customer, the United States Government, in a variety of ways (up to 1834). It did an enormous business with the public, especially in domestic and foreign bills of exchange. In times of crisis, it supplied the essential element of leadership. On the whole it succeeded remarkably well up to 1834 and perhaps up to 1836.

Was the objective of the Bank to serve the public or to make profits for the stockholders? In 1819, Secretary Crawford wrote to Langdon Cheves, then president of the Bank, that "the first duty of the Board is to the stockholders; the second is to the nation." [28] Cheves, on the contrary, thought that the Bank should not "conduct its business with a view to the largest possible profit." [29] Biddle, in most of his public utterances, stressed service to the public. The record suggests that up to 1834 the Bank often served the public and on a few occasions this was done at the expense of the stockholders. In the main, however, public service and stockholder interest coincided. After the removal of the Treasury deposits in 1833 the primary objective of the Bank was profits.

The organization and functioning of the Bank from 1836 to 1841 following its reincorporation in Pennsylvania will be described in Chapter XI. Legally it became merely one more state bank: nevertheless it inherited some features of the earlier bank.

Silver [30] was the prevailing metallic medium of exchange up to 1834. Such gold coins as there were passed in the market at a premium. The Gold Coinage Act of June 28, 1834 reduced the gold content of the dollar about 6.2 per cent as of August 1. The friends of this measure, Jackson, Benton, Taney, and others, hoped that this measure would displace bank notes with gold. Needless to say, bank notes did not disappear. This revaluation made the true par of exchange about 109 7/10 of the nominal ($4.44 4/9) par for sterling.

Following this alteration in the metallic content of the dollar there was a notable increase in the import of gold. Gold coinage increased, but by nothing like the amount of gold imports. Contrary to what one would expect, there was a continued coinage of silver. The year 1836 saw the largest coinage of silver (50 cent pieces and smaller denominations) that occurred between 1793 and 1841.

The gold policy of 1834 strengthened the ties between the British and the American money markets. The directors of the Bank of England and observers generally saw that when the United States imported specie it would now take gold.[31] While the Bank of England counted both metals among its assets, it was particularly sensitive to the loss of gold. Contrariwise, Americans who were international debtors on both long- and short-

time account and vendors of cotton and other agricultural products in England were particularly sensitive to changes in monetary conditions there. The legislation of 1834 made the ties between the two countries closer than ever.

Let us turn to banks created by the states. How important were they? How were they organized? How did their management compare with that of the Second Bank? How were controls exercised over them?

Between 1820 and 1840 the state banks increased in number from about 300 to over 700. State bank notes rose from about $41,000,000 to $107,000,000, banking capital from $102,000,000 to $358,000,000. "The race of private money-lenders" was being rapidly replaced by the corporate lender. With some justice, critics remarked that loans were sometimes made irresponsibly by the incorporated banks.[32] Gallatin observed that the "tendency . . . to extend . . . loans and discounts beyond what prudence . . . would dictate" was an "inherent" defect in joint stock banking.[33] Observers in the 1830's forgot previous bitter experience with private bankers in the presence of the immediately observable defects of banking corporations.

The behavior of the state banks varied so much from state to state and from time to time that satisfactory generalization about them is almost impossible.[34] Neither theory nor practice was standardized. Banking in the frontier states was much less conservative than banking in, for example, Massachusetts and New York.

Banking was carried on by corporations subject to the specific regulations laid down in their charter. The Bank had reason to be thankful that the nuisance of unincorporated banks had ceased to be important by 1817. Incorporated state banks were guilty of the same mistakes in connection with the issue of their stock as those which marred the early days of the Second Bank. State banks often began to operate before subscriptions had been paid. Stockholders borrowed from the bank, using the stock as collateral in the process of paying for the stock.

Many state banks were required to purchase state bonds or the issues of state-chartered public improvements. But the general character of bank assets and the banking business was vaguely defined. Gradually real estate loans came to be condemned in the conservative eastern states, and lip service was given to the

self-liquidating commercial loan theory of banking. In the West this was not the case, however. In the South, in Mississippi and Louisiana in particular, banks made loans on commodities. Outright purchases of cotton were not only permitted but sometimes encouraged. Businessmen in the South and West often induced the banks to strain their credit to the limit.

Banks known as "property" banks existed in Louisiana, Mississippi, Arkansas, Florida, and perhaps elsewhere. These institutions were organized through the issue of stock to planters in return for mortgages on their land and slaves. Stockholders were privileged to borrow from the bank to some specified percentage of their stock. Such banks were expected to secure funds through the issue of bonds, frequently with bonds secured by mortgages as collateral. In many cases the banks sold bonds delivered to them by the incorporating state in return for bank stock. The Planters' Bank of Mississippi was one such bank. At the time of the Bank's failure in 1841, it had made advances to the Planters' Bank of Natchez to assist in carrying the obligations on bonds which the Planters' Bank had sold in 1833. The Bank owned shares and deposits in it nominally worth about $1,500,000.

Institutions which might properly be called "public improvement" banks were not uncommon in many of the less financially orthodox states. These institutions were chartered to build canals, railroads, hotels, and for other worthy purposes, as well as to conduct a banking business. In Mississippi, the Bank was associated with the Grand Gulf Railroad and Banking Company and the Commercial and Railroad Bank of Vicksburg,[35] and in Louisiana with the New Orleans Gaslight and Banking Company. In New Jersey, the Bank had a controlling interest in the Morris Canal and Banking Company. These institutions, as one might expect, proved to be poor allies in the days when the Bank was struggling to maintain specie payments. Their assets were devoid not only of liquidity but ultimately of value. At the time of its failure, the Bank owned almost half a million dollars' worth of stock in Louisiana banks and almost $850,000 in Mississippi banks. It had title to over two millions of deposits in Louisiana and over four millions in Mississippi.

The procedures used in granting loans varied from institution to institution. In conservative state banks, applications for loans and requests for renewals were reviewed by a committee of the directors. In rural areas, particularly in frontier states, pro-

cedures were likely to be somewhat casual. Membership on the board of directors was sometimes an avenue to fortune, for it meant easy access to loans. Even among the comparatively well run banks of New York State the percentage of loans made to officers and directors was high. This was especially true in the country districts. In Louisiana, whose banks were far from being the worst in the South, this tendency was even more noticeable.[36]

In commercially well-developed areas, the banks professed and partly carried out the commercial loan theory of banking. Nevertheless, as late as 1839 the Commissioner of Banking in Massachusetts reproved the banks of that state for having too many "slow" notes and too much "accommodation paper" in their portfolios.[37] Stocks formed a surprisingly large fraction of the assets of Atlantic Coast banks. In agricultural areas the banks were even less successful in achieving the ideal of the short-term self-liquidating loan. As late as 1841 Gallatin queried whether "the banking system, with its indispensable strict punctuality . . . [could], under any circumstances, be beneficially applied to purely agricultural purposes."

Against their notes and deposits, the state banks kept relatively small specie reserves. This was true even in the more conservatively managed banks of the Atlantic Coast, and in the frontier states reserves were often absurdly small. The quantity of state bank notes issued was not sensitive to the variations in the amount of specie in hand. This was notably true in Massachusetts and New York. Large city banks generally held larger specie reserves in proportion to their demand liabilities than did the country banks.

There was a tendency to overissue notes, and defaults were not uncommon, especially by banks in frontier areas. To discourage this, penalties in the form of 12 per cent interest charges were provided for failure to redeem notes in specie in some states. The effectiveness of these penalties was weakened by the willingness of state legislatures to suspend the penalties in times of crisis. In a few states there was some sort of quantitative limit on note issues. There was a movement on foot to suppress small notes. General dissatisfaction with the bank note currency led to the development of such devices as the Suffolk system and the New York State Safety Fund system during the life of the Bank.

Country banks made most of their loans in the form of notes. In New York State in 1836, they issued a surprisingly large num-

ber of large notes of which about 10 per cent were for $1000 or more. In the cities, the deposit account subject to check was extensively used. Even in the cities, however, this means of payment was less used than notes.

The United States supplemented the efforts of the Second Bank of the United States to improve the quality of state bank notes in a number of ways. The collectors of the public revenue were forbidden to receive bank notes below five dollars denomination after September 30, 1835, and after July 4, 1836, below ten dollars.[38] An Act of Congress specified that the United States should not pay out bank notes of less than ten dollars after April 14, 1836 and less than twenty dollars after March 3, 1837. This was part of the program of giving the United States a gold currency and eliminating so-called "rag money." Deposit banks were urged by the Secretary of the Treasury to supply themselves with gold. The most famous attack on bank note issues took the form of the Specie Circular of July 11, 1836. After August 15 of that year, public lands were to be paid for with gold and silver, rather than with bank paper.

Control of the state banks was definitely an important objective of the men who sponsored the Bank. As one senator remarked in 1816,

> The regulation of the general currency of the country . . . at this moment [had been] wrested from the hands of the Government by petty corporations and swindling individuals throughout the community . . . Could any honorable Senator reconcile it to his conscience to leave his seat . . . without making an effort, a great effort, to reform the national currency, to regain the power over it which we have lost? [39]

Biddle viewed the role of the bank in the "preservation" of the currency as one of "control and restriction" of the "extravagant issues of local banks." [40]

Control was not easy. It was bitterly resented by the state institutions, and their resentments, particularly the resentments on the part of banks in debtor areas, probably did much to prevent the renewal of the federal charter of the Bank.[41] The state institutions did not like the insistence on note redemption by the Bank. They resented the fact that the Bank paid out its own notes and not those of state banks.[42] They disliked the maintenance of domestic exchange rates close to par, they envied the Bank its large and profitable business in domestic bills of ex-

change, and above all they resented the fact that the Bank was the chief Treasury depository. The government balances were a powerful instrument of control in the hands of the Bank.

We shall now examine the fiscal policy of the government itself, and what this meant to the American economy generally and in particular to the Bank.

IV

# Federal Government Finance

## *1816-1841*

Fiscal necessity was a determinant in the creation of the second Bank of the United States. In 1816, the federal revenues accumulated at various points where convertibility into specie was out of the question. Payments could not be readily made in the Northeast from balances in the South and West where the currency was depreciated. Secretary Crawford wrote in 1816: "The public revenue from the sale of public lands is accumulating in Ohio and Kentucky, but the currency is so bad that it is useless anywhere else." [1] Moreover, the unequal degree of depreciation of the currency at various points made import duties unequal in their incidence as between the hard money areas and the soft money areas. One obvious solution was to create a bank to act as a government depository and handle the transfer problem.

The relations between the government and the Bank may be conveniently divided into four periods: first, a period of cordial coöperation from 1817 to 1829; second, a period of growing hostility from 1829 to 1833; third, an interval of almost complete separation from 1834 to 1836; and fourth, the period from 1836 until the final liquidation of the Bank in which the government's interest in the institution was that of a creditor on account of its investment in the "old" bank.

At no time was the Bank the sole depository for the government. At various outlying points, the Treasury and the collectors of the revenue had no choice but to use state banks. However, the national Bank occupied a preferred status up to 1834, a role in accordance with the spirit and the letter of the law which created it. It was strongly favored by the government up to 1829, less so between 1829 and 1834, and definitely the government's stepchild after that date. In 1827, Secretary Rush considered dispensing with the use of the state banks altogether.[2] He ordered the land offices to receive bank notes only in cases where the

issuing bank was located in the same state or territory as the land office.[3] All receivers of public revenue were advised to scrutinize state bank notes carefully. The election of Jackson to the presidency reversed this trend in coöperation between the government and the Bank.

The government greatly influenced the Bank through the redemption of the public debt. The desirability of this was an accepted article of faith. Jackson regarded a national debt as "the wasting canker of the nations." [4] Gallatin's view was not dissimilar. "The interest," he said, "must at all times be paid by taxes extracted from the proceeds of the productive labor of the community, and it feeds the drones of society." [5]

The Sinking Fund Act of 1817 set a target of ten millions annually for service on and retirement of the debt. Up to 1833, these payments were heavy and amounted roughly to 40 per cent of the federal budget. In view of the inflationary potentialities of the time such as the character of the banking system, the high propensity to consume, the extraordinary investment opportunities, and the prevailing optimistic view of America's economic future, this public debt retirement was undoubtedly wise. It may not have been an accident that the forces of inflation began to get out of hand about the time that federal debt retirement was achieved.

How rapidly was the debt retired? What general principles were followed by the Treasury? How did these retirements affect the Bank? How were the foreign payments effected?

Table 7 indicates the net change from year to year in the debt outstanding in the hands of the public generally, and in the hands of the Bank of the United States. With the exception of the year 1821, the federal debt diminished every year from 1817 to 1835. The Bank's bond portfolio, however, usually expanded from 1819 to 1825, and decreased rapidly between 1829 to 1831.

Public debt redemption in 1816 and 1817 took the form of retirement of short-dated Treasury notes: about $5,500,000 in the first year and $12,500,000 in the second. In the latter half of 1819, the remainder (about $5,500,000) was paid off. Next, the government turned its attention to its long-term obligations. The first big issue to be retired was the Louisiana "stock," issued in 1803 and redeemable in 1818, 1819, 1820, and 1821. These bonds were largely held in Europe and payments of about $6,000,000 in all were made to foreigners out of a total of over $11,000,000. In the

last quarter of 1818 alone, retirement of about $3,500,000 in foreign hands occurred.[6] This operation with its heavy payments in Europe supplemented the other deflationary forces at work and undoubtedly made the difficulties of the Bank in 1818–1819 more

*TABLE 7*

*Net Annual Change in the Federal Debt Outstanding and Owned by the Bank: 1817–1841*

| Year | Net Change in Debt Outstanding (000 omitted) | Net Change in Debt Owned by the Bank (000 omitted) |
|---|---|---|
| 1817 | −$20,025 | −$2.4[a] |
| 1818 | −7,937 | −2.1[b] |
| 1819 | −4,514 | −.2 |
| 1820 | −1,028 | +2.0 |
| 1821 | +3,559 | +4.1 |
| 1822 | −2,671 | −2.3 |
| 1823 | −606 | −.1 |
| 1824 | −6,481 | +7.5 |
| 1825 | −2,734 | −.1 |
| 1826 | −7,067 | −.5 |
| 1827 | −6,512 | −.1 |
| 1828 | −9,054 | −1.5 |
| 1829 | −9,856 | −4.5 |
| 1830 | −9,442 | −2.9 |
| 1831 | −14,801 | −8.7 |
| 1832 | −17,321 | ........ |
| 1833 | −2,242 | ........ |
| 1834 | −4,722 | ........ |
| 1835 | ............ | ........ |
| 1836 | +299 | ........ |
| 1837 | +2,971 | ........ |
| 1838 | +7,126 | ........ |
| 1839 | −6,861 | ........ |
| 1840 | +1,678 | ........ |
| 1841 | +8,347 | ........ |

Sources: Data on federal debt and its retirement from the *Report of the Secretary of the Treasury*, 1949, p. 396. These data are not completely consistent with data from R. A. Bailey, *National Loans of the United States* (Washington, 1882). A check by means of the data compiled by Joseph Nourse, Register of the Treasury, was not decisive as between these two sources. The data for the Bank of the United States are from the various reports heretofore mentioned.

[a] From Apr. 1817 to Mar. 1818.

[b] From Mar. 1818 to Jan. 1819.

serious than they otherwise would have been. By 1820, it was the Bank's turn to be strong and the Treasury's to be weak. Fearing that the Treasury balance would not be adequate to meet the payments on the public debt due on October 21, 1821, the Treasury asked the Bank to make the necessary advances to "save the public credit." [7]

The next important step was to retire or refund the War of 1812 bonds, the United States 7's, and 6's. This took place between 1824 and 1832, and most of it was accomplished between 1825 and 1830. In the last quarter of 1825, over $5,500,000 of the 6's of 1812 were retired just as the financial panic of 1825 was getting under way. Between September and November, the government's balance at the Bank was reduced from almost $8,000,000 to $2,000,000. Over a million of the bonds had to be redeemed in Europe. The government on this and other occasions gave quite inadequate attention to both the domestic and the international effects of its debt retirement policy. In this instance the Bank was fortunately situated and rode out the storm easily.

The year 1832 was a banner year for debt reduction. The largest single operation was the retirement of about $13,000,000 of the United States 3's which Secretary Hamilton had issued to fund part of the national debt in 1791. About $7,500,000 of these were in foreign hands. These foreign payments Biddle thought would probably lead to specie exports under circumstances particularly embarrassing to the Bank. What he did about this is described in Chapter X.

The magnitude of the national bonded debt in foreign hands is given in Table 8. In the whole period, the federal government redeemed a little more than thirty millions of bonds held in Europe. Beginning about 1832, the export of state bonds to Europe more than offset the redemption of the federal issues in foreign hands.

Andrew Jackson achieved the complete redemption of the public debt in 1835: the wasting canker of the nations had been eliminated — temporarily. By 1837, the government was running substantial budgetary deficits. Dependent as it was on receipts from customs duties and from the sale of public lands, a deficit was almost inevitable with the onset of a serious depression. In 1836, customs receipts were approximately $23,000,000, in 1841, $14,000,000: receipts from the sale of public lands were $25,000,000 in the first year and $1,000,000 in the last. There were those in Washington who thought that reduced revenues should be matched by rigorous measures of governmental economy but so rapidly did the revenues decline that their case was hopeless. Deficits ranging from $5,000,000 to $12,000,000 occurred in 1837 and 1838 and again in 1840 and 1841. Because of the inflow of capital and the general revival of business in 1838, the year 1839

was the one exception in this period of deficit financing. By January 1, 1841 the federal debt amounted to about $13,700,000. This fiscal emergency was met by the issue of one-year Treasury notes bearing 6 per cent interest. Unlike the earlier issues of bonds, these Treasury notes were not sold to the Bank but rather were used in payment to the creditors of the government.

In accordance with its charter provisions, the Bank made both short-time and long-term loans to the government while it re-

*TABLE 8*

*United States Bonds in Foreign Hands in 1824 and 1828*[a]

| Issue | 1824[b] | 1828[c] |
|---|---|---|
| 6% Deferred | $185,094 | ............... |
| 3%s | 7,553,582 | $7,739,842 |
| 6% Exchanged | 308,679 | ............... |
| 6%s of 1812 | 1,151,857 | ............... |
| 6%s of 1813 | 5,068,490 | ............... |
| 6% of 1814 | 3,996,102 | 2,562,903 |
| 5% of 1815 | 3,595,035 | 4,097,082 |
| 7% Stock | 1,342,414 | ............... |
| 5%s of 1820 | 663,774 | 622,827 |
| 5%s of 1821 | 1,420,409 | 684,763 |
| 4½%s of 1824 | ............... | 917,318 |
| Exchanged 4½%s of 1824 | ............... | 1,552,278 |
| Exchanged 4½%s of 1825 | ............... | 909,267 |
| Other miscellaneous | 469,113 | 14,506 |
| Total | 25,754,540 | 19,100,786 |

[a] In 1828, the British held $14,146,222, the Dutch, $2,162,460, and other foreigners $2,802,105.
Sources:
[b] Baring Papers (MS) Miscellaneous Correspondence, 1819–1832.
[c] *Ibid.*

mained a federal institution. The important bond issues which it took at the invitation of the government were as shown in Table 9.

In 1820 and 1821 the government was running a small deficit in its ordinary operations. In the first of these years it redeemed both Louisiana bonds and the so-called Mississippi stock. Together these amounted to about $2,750,000. In 1821 the redemption of the Louisiana bonds and the Mississippi stock required about $2,600,000. At the time these loans were made the Bank was not only able to make the loans but glad to get this gilt-edged earning asset. The bond purchases of 1824 and 1825 were made at a time when, again, the government was running a small

deficit or an inadequate surplus. By 1824 and 1825 the Treasury had maturing bonds of the War of 1812 to meet. The Bank was glad to secure these issues, too, although the events of the financial crisis of 1825–1826 made it necessary for it to sell its most recently acquired government securities. The bond holdings of the Bank reached a maximum in the middle of 1825 when its portfolio of United States issues amounted to more than $20,000,000. These made up about one-third of the Bank's earning assets at this time.

At two periods, 1817–1818 and again in 1831, the government rapidly retired funded debt owned by the Bank. On both occasions the Bank increased its loans to individuals. In doing this, the Bank overcompensated for its loss of earnings from the funded debt and was accused of causing inflation.

*TABLE 9*

*United States Government Bond Issues Purchased by the Bank*

| Date | Amount Bought by the Bank | Character of the Issue | Total Issue |
|---|---|---|---|
| 1820 (2nd Quarter) | $2,000,000 | Six per cent Loan of 1820 | $2,000,000 |
| 1821 (1st Quarter) | $4,000,000 | Five per cent Loan of 1821 | 4,735,296 |
| 1824 (2nd Quarter) | $5,000,000 | Four and one-half per cent Loan of 1824 (for awards under Treaty with Spain) | 5,000,000 |
| 1825 (1st and 2nd Quarters) | $5,000,000 | Four and one-half per cent Loan of 1824 | 5,000,000 |

Source: R. A. Bailey, *National Loans of the United States*, pp. 431–433.

In his report of 1828, Secretary of the Treasury Rush paid tribute to the services of the Bank to the government as follows:

All monies have been paid at the time, and at the place, where they were required to be paid, and to the persons entitled to receive them. This capacity in the Treasury to apply the public funds at the proper moment, in every part of a country of such wide extent, has been essentially augmented by the Bank of the United States. The department feels an obligation of duty to bear its testimony, founded on constant experience during the term in question, to the useful instrumentality of this institution, in all the most important fiscal operations of the nation. In faithful obedience to the conditions of its charter, and aided by its branches, it has afforded the necessary facilities for transferring the public moneys from place to place, concentrating them at the point required. In this manner all payments on account of the public debt, whether for interest or principal; all on account

of pensions; all for the civil list, for the army, for the navy, or for whatever other purpose wanted in any part of the Union, have been punctually met. The bank is also the depository, with its branches, for the public moneys, from whatever sources of revenue received; aiding, too, in their collection: thereby giving safety to the keeping, as well as promptitude and certainty to the disbursement of the public treasure. It receives the paper of the State banks paid on public account in the interior, as well as elsewhere, and, by placing it to the credit of the United States as cash, renders it available wherever the public service may require. By this course, a course not enjoined by its charter, it widens the field of business and usefulness to the State banks. Such, also, is the confidence reposed in the stock of the Bank of the United States, that it serves as a medium of remittance abroad, in satisfaction of debts due from our citizens to those of other countries, which otherwise would make a call upon the specie of the country for their discharge. Nor are these all the uses of this institution, in which the Government participates. It is the preservation of a good currency that can alone impart stability to property, and prevent those fluctuations in its value, hurtful alike to individual and to national wealth. This advantage the bank has secured to the community, by confining within prudent limits its issues of paper, whereby a restraint has been imposed upon excessive importations, which are thus kept more within the true wants and capacity of the country. Sometimes (judiciously varying its course) it enlarges its issues, to relieve scarcity, as under the disastrous speculations of 1825. The State banks, following, or controlled by its general example, have shaped their policy towards the same salutary ends — adding fresh demonstrations to the truth, that under the mixed jurisdiction and powers of the State and National systems of government, a national bank is the instrument alone by which Congress can effectively regulate the currency of the nation . . . In conclusion, the mode of its agency in large payments of the principal of the debt, is not to be overlooked. By its arrangements for them, it avoids the inconvenience of too great an accumulation of money in the vaults of deposite used by the Government, and of the vacuum that would succeed its too sudden distribution. It does this by anticipating, as the periods of payment approach, the disbursement of a considerable portion of the stock, in the form of discounts in favor of those who are to be paid off; thereby enabling them otherwise to employ their capital, as opportunities may offer beforehand. In this manner heavy payments of the debt are, in effect, made gradually, instead of the whole mass being thrown at once upon the money market, which might produce injurious shocks.[8]

This appraisal was just as well as complimentary. Biddle, in this hour of uncertainty when his friends were soon to go out of power in Washington and Jackson had been elected, took comfort in this approval of the Bank. He even thought that the above verdict would carry weight with the new administration. He was, of course, quite wrong.

In 1829, relations between the Bank and the government be-

gan to deteriorate. How this came about we shall discuss in Chapters X and XI.

For the government, the investment in the "old" Bank turned out well. In return for $7,000,000 of 5 per cent government bonds issued January 1, 1817, the Treasury received a bonus of $1,500,000, dividends of $7,118,416, receipts from the sale of Bank stock of $766,400, and principal and interest on redemption of its shares amounting to $8,393,526. The total received over the years amounted to $17,778,342. This was a good investment.[9]

# V

# Prices and Price Movements

### *1816-1841*

The prestige and finally the very existence of the Bank were involved in the prevalence of fluctuating prices. The commodity price index numbers presented in Chart VIII show both a general downward trend and well-marked short-period fluctuations. Both the Bank and the general public regarded the second type of price change as more significant than the first. James K. Polk, then governor of Tennessee, expressed a widely held view when he wrote to the legislature in 1841:

> What the farmer or planter should most desire is a regular course of policy, steadily pursued, by which prices may remain settled and not be subjected to great and sudden changes, often brought about by extended Bank credits to a small class who have overtraded or engaged in visionary or disastrous speculation.[1]

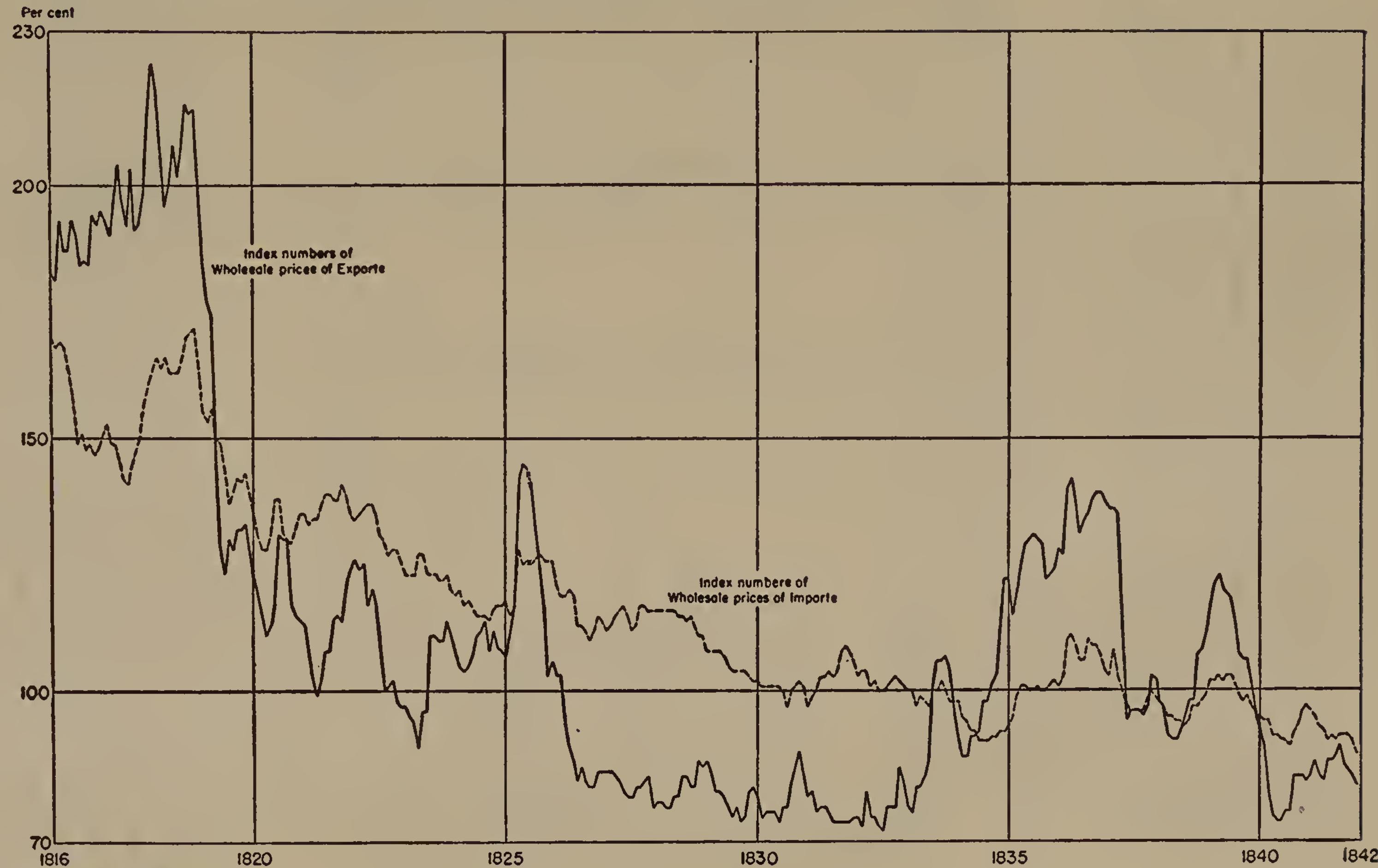
The first of our two wholesale commodity price index numbers was made of the prices of exportable goods, the second of prices of goods normally imported. This pair of index numbers shows the general price trend and the timing of important turns in the merchandise markets and reveals something of the changing terms of trade. During the prosperous periods of 1817–1818, 1825, 1833–1836, and 1838–1839 it is apparent that the products of American effort were exchanged for imported goods on unusually favorable terms.

The original price series from which these index numbers were made were taken from Boston newspapers: between January 1816 and November 1827 from the *Boston Commercial Gazette* and after that from the *Boston Daily Advertiser*. From the four or more quotations published each month, data were taken for a date as near as possible to the middle of the month.

The index numbers are not perfectly homogeneous because of some minor changes in both composition and weighting before and after July 1825. A description of the price series and weights

CHART VIII

*Wholesale Commodity Prices in the United States, 1816–1842*




For sources, see page 307.

is given in Tables 10A and 10B. The familiar aggregative formula was used. The base was the average of price sums for the period from 1830 to 1839 inclusive. The index number for 1816 to 1825 was calculated relative to the same base, with necessary adjustments to allow for slight differences in composition and weighting in this earlier period.

The exports index is dominated by the prices of agricultural

*TABLE 10A*

*Composition and Weights of the Exports Prices Index Number*

| Commodity | Unit | Weight 1816–1825 | Weight 1825–1841 |
|---|---|---|---|
| Corn, Indian, Southern | bu. | 3,000 | 3,000 |
| Rye | bu. | 100 | 50 |
| Oats | bu. | 100 | 50 |
| Rice, good | cwt. | 1,000 | 500 |
| Tobacco, Kentucky | cwt. | 500 | 500 |
| Cotton, Georgia Upland | lb. | 200,000 | 300,000 |
| Flour, Superfine | bbl. | 1,000 | 700 |
| Beef, Mess | 200 lbs. | 100 | 50 |
| Pork Cargo, No. 1 and Mess | bbl. | 100 | 100 |
| Lard, Hogs, 1st Sort | lb. | 7,000 | 7,000 |
| Cheese, American, New Milk | lb. | 5,000 | 3,000 |
| Oil, Whale, Common | gal. | 3,000 | 3,000 |
| Ashes, Pearl | ton[a] | 10 | 10 |
| Shingles | 1,000 | 500[b] | 500[c] |
| Staves, W.O. Hhd. | 1,000 | 50 | |
| Tar, Wilmington | bbl. | 1,000 | 500 |
| Candles, American tallow molded | lb. | 3,000 | 3,000 |
| Fish, Cod dry | cwt. | 500[d] | |
| Fish, Cod dry | 112 lbs. | | 500[e] |
| Lumber, Quad. and Mach., clear | 1,000 ft. | 100 | 100 |

[a] Prior to July 1825 these were tons of 2000 lbs., and after that date of 2240 lbs.
[b] Top price.
[c] Average price.
[d] N. Y. prices to Jan. 1825.
[e] Boston prices Feb. 1825 ff. per quin.

raw materials, especially by the price of cotton.[2] Of less importance were tobacco, rice, flour,[3] and pearl ashes. Other products were still less significant. The series from which the exports index number was made were in most cases highly flexible. Shingles and lumber were exceptions to this rule, and their quoted price remained stable for months at a time.

The price index for imports, by contrast, was not dominated by any single commodity. The listed prices of such things as

Swedish iron, copper sheathing, English steel, Russia duck, hides, port wine, and other goods often remained unchanged for intervals of almost a year. Of the entire imports list, Havana brown sugar and hemp were the most variable. These goods were bought for American consumption and for the reëxport trade as well.

Export commodity prices rose from 1816 to the end of 1818 and the American agricultural interests prospered. The Bank of the United States was blamed for the high prices of this period.

*TABLE 10B*

*Composition and Weights of the Imports Prices Index Number*

| Commodity | Unit | Weight 1816–1825 | Weight 1825–1841 |
|---|---|---|---|
| Iron, Swedes, assorted | ton | 20 | 30 |
| Copper, Pig | lb. | | 1,000 |
| Lead, Pig | cwt. | 30 | 30 |
| Steel, English blistered | lb. | 4,000 | 4,000 |
| Tin Plates, No. 1 | box | 50 | 50 |
| Copper, English Sheathing | lb. | 2,500 | 2,500 |
| Salt, Liverpool | 8 bu. | 400 | 400 |
| Sheeting, Russia, brown | pi | 100 | 40 |
| Duck, Russia, 2nd quality | bolt | 100 | 50 |
| Brandy, French 4th proof | gal. | 3,000 | 1,000 |
| Tea, Hyson | lb. | 3,000 | 2,500 |
| Coffee, West India, ordinary | lb. | 30,000 | 40,000 |
| Sugar, Havana, brown | cwt. | 700 | 500 |
| Molasses, Havana, best | gal. | 5,000 | 3,000 |
| Cocoa, Caracas | cwt. | 50 | |
| Cocoa, Cayenne & Surinam | cwt. | | 20 |
| Hemp, clean | ton | 10 | 5 |
| Hides, Buenos Aires, dry | lb. | 10,000 | 10,000 |
| Wine, Port | gal. | 1,000 | 500 |
| Brimstone, roll | cwt. | | 40 |
| Raisins, Malaga | cask | 200 | |
| Pepper | lb. | 3,000 | |

Public indignation about the high cost of living and the high cost of food in particular expressed itself in the form of criticism of banks generally and so-called "rag" money. Poor crops and high prices in England and Europe were the obviously more relevant explanations for the high prices of American export staples. Early in 1819, the prices of exports fell drastically and with this came business and bank failures. The Bank was blamed for this deflationary episode, although deflation and depression were world-wide in 1819. Beginning in 1823 there was an upturn in

prices which culminated in 1825. The press, ordinarily disposed to ascribe price movements to the policies of the nearest financial institution in sight, on this occasion attributed the changes in prices to the boom then going on in England. Prices declined rapidly in the latter half of 1825 and the first half of 1826. Once again, American prices reflected the situation overseas. Beginning in 1826 and lasting through 1832 the prices of American produced goods were extraordinarily stable. Ironically, the six-year period of price stability ended in a veto of the charter of the Bank and official questioning of the "soundness" and "stability" of the currency. Probably never since 1789 had the United States had a dollar which was sounder or more stable than the dollar during the years from 1826 to 1832. Beginning in April 1834 and continuing until the end of the first quarter of 1837, export commodity prices showed a strong upward trend. American prices reflected the boom conditions prevalent throughout the western world during these years when capital formation was proceeding with phenomenal rapidity.

The precipitate fall in prices in the spring of 1837 was accompanied not only by a general business recession but also by the first suspension of specie payments by the Bank. Between March and May 1837, the price index number for exportables declined from around 135 to about 95. Practically all of the banks of the United States suspended specie payments beginning in May. In view of this catastrophic decline in prices it was not surprising that there should have been business failures as well as unsupportable demands on the specie reserves of banks. Prices remained low until the second half of 1838 at which time most, but not all, of the banks of the country returned to specie payments.

In 1838–1839, export commodity prices rose for a time and a brief business and banking revival occurred. When the situation changed and prices of exports began to decline rapidly in 1839, the Bank and most of the state banks except those of New England and New York had to suspend specie payments a second time. The year 1839 was one of the turning points in American economic development and the price decline which accompanied it was a disaster to the Bank.

Contemporary observers often accused the Bank (and banks generally) of alternately inflating and deflating prices. These views were widely held in spite of the prominence which the

press gave to conditions in foreign markets and the widespread knowledge on the part of merchants that prices of both imports and exports reflected conditions there. Relative to the two important groups of commodities described by our index numbers, these charges of inflation and deflation generally look strange. On the other hand, banking policy unquestionably had a great deal of influence on real estate prices and the prices of speculative stocks. Groups interested in these last-named prices were active and vocal. They may have done much to influence popular opinion about the relation of bank credit to prices. It would have been more rational to have denounced the banks for operating in such a manner that they too easily became the victims of price changes.

One minor qualification of the above idea should be made in the case of cotton. Prices of cotton in London [4] and in Boston were closely correlated, as one would expect. The margin between the foreign price and the American price narrowed slightly as time went on. That, too, one would expect, because of the greater speed of transport. But the surprising thing is that the margin between the foreign price and the American price varied from time to time. The margin actually widened as cotton prices declined in 1819. On the other hand, the margin became very narrow or negative as prices fell in the latter part of 1825. The same was true in 1837. Perhaps the Bank's policies in 1819 caused price deflation in the United States to go farther and faster there than in Europe. On the other hand, in 1825 and later, as cotton prices fell, traders apparently were not pressed and the adjustment of the American price to the foreign situation took place more gradually. The attempt to manipulate the world price of cotton in 1837 and later years is another story. This will be discussed in Chapter XI.

Both index numbers had a general downward trend over the period taken as a whole and both displayed a rough similarity in direction and timing of their short-period fluctuations. In the amplitude of these short period variations there was a difference. The prices of American exports showed wider swings than the prices of imported goods.[5] Similarly, the decline in prices of exportables in 1819, 1837, and 1839 was greater and more precipitate than the fall in imported goods prices. These last named years were years of business distress.

Commodity prices and price fluctuations bear no simple causal

relationships to international specie movements. When export commodity prices were low and falling following 1819, there was a net export of specie. In 1825, when export commodity prices rose much above the level of price imports, we exported more specie than we had in the previous year. From 1833 to 1837, specie imports were large while the prices of exported goods stood high. But the year 1837–1838 was the banner year for specie imports and this was a period of rapidly falling commodity prices. In 1838–1839, on the other hand, during a business revival and an upturn in commodity prices, the United States had a net export of specie for the first time in several years. Contemporaries often said that the Bank inflated prices and drove the precious metals out of the country. But clearly the Bank did not dominate prices, nor did commodity prices dominate specie movements. Specie movements, on the other hand, affected Bank reserves. The Bank's credit policy was loosely connected with its reserve position.

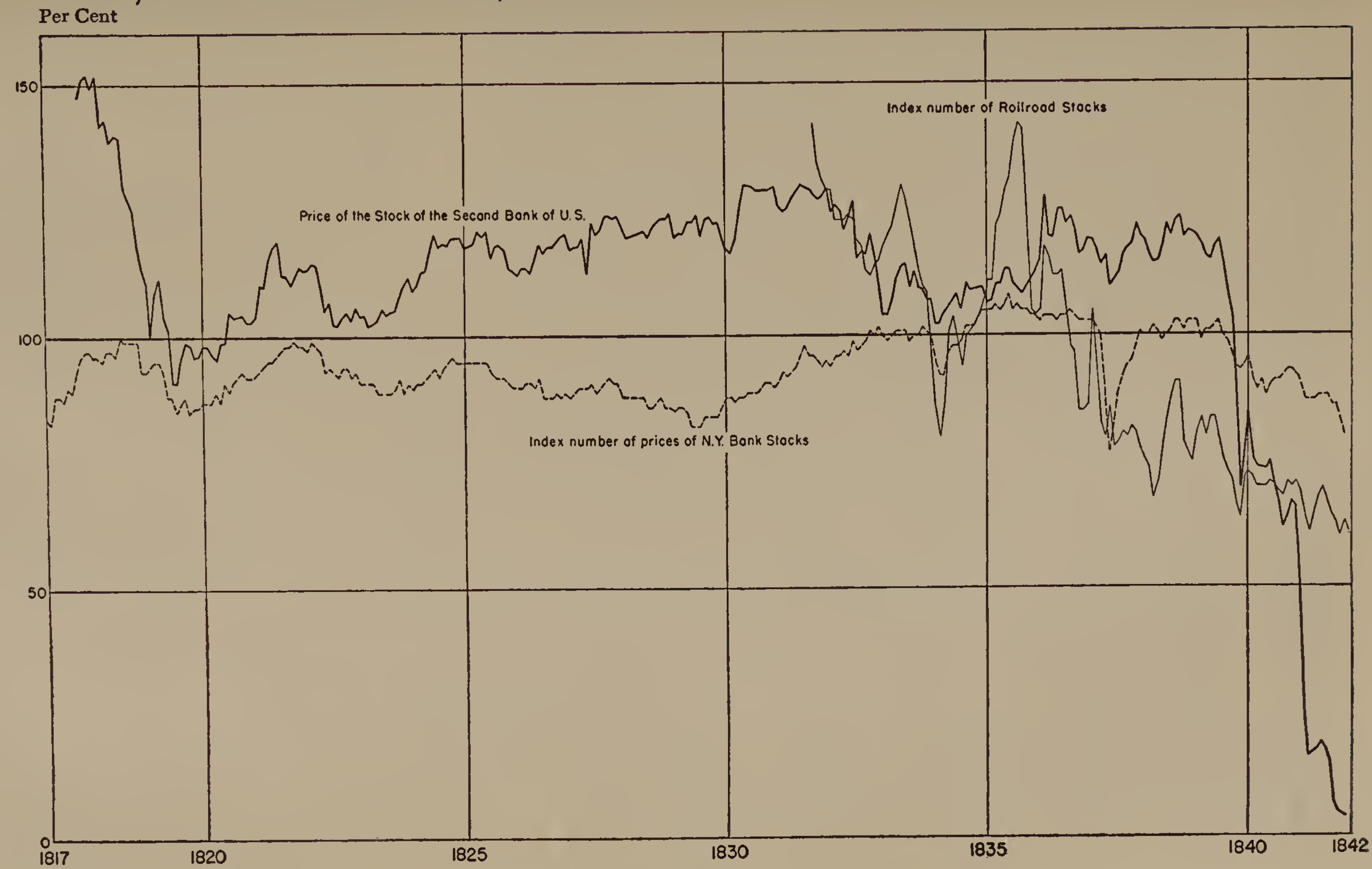
Prices of corporation stocks and their course are indicated in Chart IX. Less important than commodity prices, they nevertheless throw light on the financial situation in which the Bank found itself. In this chart, three series are presented: The price of the stock of the Bank itself,[6] an index number of prices of stocks of New York banks,[7] and third, an index number of prices of railroad shares[8] in New York. The index numbers are unweighted aggregatives with the years 1832–1839 as a base.

All of these series fluctuated together in a similar direction. Bank stocks, being conservative investments with a steady dividend record, were stable in value: railroad stocks, being very speculative, were highly volatile. In the 1818–1819 crisis, New York bank stocks declined about fifteen points in price, a record that contrasts oddly with the behavior of United States Bank stock as well as with the general reports of unbearable commercial distress. Whatever pressure these stocks may have been under was clearly past by the middle of 1819. This fact is in agreement with other data indicating that the middle of 1819 marks the turning point of that depression.

The crisis of 1825 left New York bank stock prices unaffected. On the other hand, the crisis and suspension of 1837 greatly impaired their value for the time being. The events of 1839 and 1841 left them relatively untouched. In the light of the wave of prosperity in the 1830's it is noteworthy that New York bank

## CHART IX

*Prices of Stocks in the United States, 1817–1842*




For sources, see page 307.

stock prices showed a generally steady upward trend which culminated in 1835–1836 and a downward trend from that time until 1842.

The index number of railroad stock prices in New York exhibits the volatility that one could expect from the most speculative issues in a most speculative era. Declining prices clearly reflect the effect of bank credit restrictions that followed the removal of the Treasury deposits in the latter part of 1833. For this part of the stock market, the money crisis seems to have been over by the second quarter of 1834. Flush times and easy money are suggested by the heights to which this set of prices rose in 1835. Long before the financial crisis of 1837, however, these stocks began to deteriorate in value; the acute phase of this crisis occurred in May, 1837. Railroad stocks began to fall in price in the last quarter of 1835 and continued to fall steadily throughout 1836. When the money crisis occurred, New York railroad stocks had reached their lowest price for the time being. The general resumption of specie payments in August 1838 was accompanied by a temporary and very moderate revival in prices. Almost at once these stock prices began to deteriorate and the price trend was generally downward from the last quarter of 1838 to the first quarter of 1841. Too much reliance cannot be put upon these data but they seem to indicate that the money crises did indeed have a marked effect on speculation in corporate stocks: they reinforce the impression derived from other sources that much of the atmosphere of prosperity and depression in this period centered about the market for speculative stocks.

The price of the Bank's stock declined very rapidly in 1818. During this period, the officers of that institution at Philadelphia and at the Baltimore branch were speculating for a rise. No wonder the Bank lost money on the loans made to speculators under these circumstances. Second, the middle of 1819 marked a definite turning point in the market rating of the Bank. The market in its appraisal of the stock justified President Cheves's view that by this time the institution was no longer in serious danger. But of course the market had never taken as pessimistic a view of the Bank as Cheves did, for the stock was quoted through this entire period within ten points of par. Third, the 1824–1825 boom did not very greatly affect the price of the Bank's stock. The price was up, but not very high. Fourth, Jackson's hostile message of December 1829, the message which declared war on the Bank,

only caused the price to drop about three points. The public seem not to have been alarmed. Fifth, the stock of the Bank sold for a high price through 1830 and 1831, but began to decline in 1832 as the veto of the federal charter became more certain. The actual veto message in the summer of 1832 caused the price to drop about ten points. Sixth, on the withdrawal of the Treasury deposits from the Bank in the last quarter of 1833 the price of the Bank's stock declined about seven points, a very nonchalant response to a serious blow to the Bank's earning capacity. Again, with recharter by the state of Pennsylvania in February 1836, the price of the stock rose about twelve points. Clearly recharter had not been generally anticipated. Lastly, the suspension of specie payments in May 1837 did not seriously weaken the Bank's prestige in the market, for the price of its stock dropped only about seven points. What the market did take seriously was the Bank's suspension of specie payments in the latter part of 1839; that caused the price to drop almost thirty-four points.

That the price of the Bank's stock should have fluctuated in response to these events is hardly surprising. What is surprising is the apparent steadiness of the price of the stock in view of the ebb and flow of business, the political attacks upon the Bank, and decisive changes in its operation and structure. From 1819 until almost 1840 the market appraised the Bank as a sound and conservative investment.

# VI

# The International Context

## *1816-1841*

From the beginning, the leaders of the Bank were alert to the bearing of international finance and trade on its affairs. Such an attitude was natural enough in a country which was actively engaged in foreign commerce and whose productive facilities were specialized with a view to supplying the foreign market. Experience taught the Bank's officers that foreign economic developments could not be safely neglected. The British, particularly, reciprocated this interest. Baring Brothers and Company, the most important of the British banking houses, maintained an agent in the United States (T. W. Ward) and had as one of the most important of their partners, Joshua Bates, an American, to look after their American interests.[1]

The relation of world trade and finance to the American economy is brought to a focus in a balance of international payments and this we shall discuss. This will be followed by a brief description of trade and financial institutions of Great Britain which were relevant to American developments.

As Edgeworth once remarked, in statistical work beggars cannot be choosers. The truth of this becomes the more poignant the more remote the period studied. The data given here do not, obviously, have a high degree of accuracy.[2] They do, however, give some impression of the magnitude of the items and the timing and direction of change.

Estimates of the trade items for the period from 1816 to 1820 are set forth in Table 11. Crude as these data are, they show that the Bank of the United States began life in 1817 with one very serious count against it. In the previous year the country had incurred a large short-term mercantile debt in Europe. The figure of $64,000,000 undoubtedly exaggerates this debt, and perhaps half that amount would be more nearly correct. But whatever the figure, it was large. The problem of assisting the state banks

to return to specie payments and of maintaining adequate specie reserves in the Bank was undoubtedly made more difficult by a legacy of foreign debt accumulated before the Bank began to function.

The year 1818 shows a similar, though much smaller, excess of merchandise imports. The estimate of debt abroad of $28,000,000 is much too large and half that amount is probably nearer the truth. These figures suggest that the expansive credit policy by the Bank in 1818 was unwise because it did not discourage speculative importations of commodities. The short-term foreign debt accumulated by American merchants in 1818 was a contributing factor to the difficulties of the Bank and of the country in 1819.

*TABLE 11*

*Exports and Imports of the United States, 1816–1820*

| Date | Exports of Domestic Products[a] | Reëxports of Foreign Products[a] | Specie Exports[b] | Ships Sold[c] | Merchandise Imports[a] |
|---|---|---|---|---|---|
| 1816 | $64,781,896 | $17,138,555 | $1,922,000 | $1,168,950 | $147,103,000 |
| 1817 | 68,313,500 | 19,358,069 | 4,545,000 | 711,400 | 99,250,000 |
| 1818 | 73,854,437 | 19,426,696 | 5,601,000 | 755,350 | 121,750,000 |
| 1819 | 50,976,838 | 19,165,683 | 7,414,000 | 568,250 | 87,125,000 |
| 1820 | 51,683,640 | 18,008,029 | 6,297,000 | 313,150 | 74,450,000 |

Sources: [a] United States, *Sen. Doc.* 2, 24 Cong., 1 sess., pp. 32 and 34.
[b] United States Treasury, Receipts and Expenditures (ME), National Archives, Washington, VIII, 110.
[c] Reports of the Secretary of the Treasury.

Part of this debt was settled by the remittance [3] of government bonds and Bank of the United States stocks to Europe. Between 1816 and 1819 there was, perhaps, a net increase of United State government bonds held in Europe of around $9,000,000 and about $3,000,000 of Bank of the United States stock. Part of the short-term debt was paid for from earnings of American carriers. A considerable part was settled by means of defaults, a not uncommon method of bringing about "adjustment" in the balance of international payments in those days.

In summary, the international situation was embarrassing to the Bank in 1819 on three significant counts. There was the previously mentioned short-term debt, the settlement of which made demands on the specie and foreign exchange resources of

the Bank. There was the heavy redemption of the United States Louisiana bonds, discussed in an earlier chapter, which called for large foreign payments in the last quarter of 1818. Lastly, the drastic decline of $23,000,000 in the value of merchandise exports in 1819 greatly aggravated the situation in which both the Bank and business generally found themselves.

A more comprehensive estimate of the trade and other items in the balance of international payments is given in Tables 12A and 12B for the period from October 1, 1820 to September 30,

*TABLE 12A*

*International Payments of the United States: Receipts from Foreigners, 1821–1841*

| (0) Year | (1) Merchandise Export | (2) Ships Sold | (3) Freight and Shipping to Foreign Ports | (4) Freight and Shipping between Foreign Ports | (5) Immigrant Fares | (6) Money Brought by Immigrants | (7) Gold and Silver Exports | (8) Indemnities | (9) Total Credits |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (000,000 omitted) | | | | | |
| 1820–21 | $54.5 | $.4 | $6.9 | $1.5 | $.2 | $.5 | $10.5 | | $74.4 |
| 1821–22 | 61.4 | .3 | 7.8 | 1.5 | .2 | .4 | 10.8 | | 82.3 |
| 1822–23 | 68.3 | .4 | 8.1 | 1.6 | .1 | .3 | 6.4 | | 85.3 |
| 1823–24 | 69.0 | .6 | 8.7 | 1.6 | .2 | .4 | 7.0 | | 87.5 |
| 1824–25 | 90.7 | .5 | 11.6 | 1.7 | .2 | .5 | 8.8 | | 114.1 |
| 1825–26 | 72.9 | .7 | 9.1 | 1.8 | .2 | .5 | 4.7 | | 89.9 |
| 1826–27 | 74.3 | .9 | 9.5 | 1.8 | .4 | .9 | 8.0 | $1.2 | 97.1 |
| 1827–28 | 64.0 | .8 | 7.9 | 2.0 | .6 | 1.4 | 8.2 | | 84.9 |
| 1828–29 | 67.4 | .7 | 8.4 | 1.6 | .5 | 1.1 | 4.9 | | 84.7 |
| 1829–30 | 71.7 | .6 | 8.9 | 1.4 | .5 | 1.2 | 2.2 | | 86.4 |
| 1830–31 | 72.3 | .5 | 9.1 | 1.5 | .4 | 1.1 | 9.0 | .4 | 94.4 |
| 1831–32 | 81.5 | .4 | 8.8 | 1.7 | .9 | 2.4 | 5.7 | | 101.3 |
| 1832–33 | 87.5 | .2 | 9.4 | 1.8 | 1.0 | 2.8 | 2.6 | .2 | 105.6 |
| 1833–34 | 102.3 | .2 | 11.0 | 2.1 | 1.0 | 3.2 | 2.1 | | 121.8 |
| 1834–35 | 115.2 | .5 | 13.5 | 2.2 | .9 | 2.5 | 6.5 | .5 | 141.7 |
| 1835–36 | 124.3 | .5 | 13.8 | 2.2 | 1.1 | 3.4 | 4.3 | | 149.7 |
| 1836–37 | 111.4 | .5 | 13.0 | 2.0 | 1.2 | 3.9 | 6.0 | 4.5 | 142.6 |
| 1837–38 | 105.0 | .3 | 13.0 | 2.0 | .9 | 2.5 | 3.5 | .9 | 128.0 |
| 1838–39 | 112.3 | .3 | 13.7 | 2.0 | 1.1 | 3.1 | 8.8 | .6 | 141.8 |
| 1839–40 | 123.7 | .7 | 15.3 | 2.2 | 1.4 | 4.0 | 8.4 | .4 | 156.0 |
| 1840–41 | 111.8 | .6 | 13.6 | 2.1 | 1.4 | 4.1 | 10.0 | .1 | 143.7 |

(0) Fiscal years ending Sept. 30, 1821–1841.

(1) Source: *Reports of the Secretary of the Treasury.*

(2) Source: *Reports of the Secretary of the Treasury.* Tonnage valued at $50 a ton. The original data for calendar years was prorated to conform to the fiscal year established for the merchandise data.

(3) Source: United States Treasury, "Statistics of the Foreign and Domestic Commerce of the United States" (Washington, 1864), p. 10. The value of domestic produce exported in American vessels was multiplied by 15 per cent to estimate the earning as carriers of American produce. The amount of the exports of foreign produce was multiplied by the percentage carried

1841.[4] While obviously more trustworthy than the data in the previous tables it nevertheless should be noted that these data probably err seriously in underestimating the earnings of American ocean carriers in the first ten years. The estimates of capital and interest transactions (in Table 13) obviously call for a very large measure of statistical tolerance. The most that can be said for this capital account is that in a general way it is corroborated by an extensive study of the debt retirement operations of the federal government and of the issue and sale of state bonds beginning in the middle 1820's.

The merchandise figures give an apparent support for the idea that there was a three or a four-year cycle of merchandise imports.[5] It has been suggested that this originated in some inherent characteristic of the inventory accumulation process. The imports of 1818 and of 1821–1822 seem to fall into this pattern of alternating errors of optimism and pessimism. On the other hand, the large imports of 1825 are to be explained by circumstances peculiar to that period. In this boom year, in both England and the United States, American imports increased, it is

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in American-owned vessels and by 10 per cent of this result to estimate American earnings as carriers of foreign produce. Calculations of the rates on such bulky articles as cotton and flour suggest that 15 per cent underestimates the freight charge on these items. Twenty per cent would clearly have been high. Reëxported items were less bulky and the figure of 10 per cent for the freight rate on these seemed not unreasonable.

(4) This figure was derived by prorating the figures of $30,000,000 given by Bullock, Williams and Tucker for the earnings of American ships as carriers between foreign ports in proportion to the registered tonnage of the United States. The coefficient derived for this purpose was used for the years following 1837.

(5) Source: U. S., *Sen. Doc. 756*, 61 Cong., 3 sess., 1910–1911. "Statistical Review of Immigration, 1820–1910," p. 9. The number of immigrants was multiplied by the percentage of American vessels entering our ports to estimate the number paying fares to American carriers. The average fare was assumed to be $25. The data were prorated so as to adjust these calendar year data to conform to the fiscal year.

No allowance was made for payments to foreigners for transportation of Americans or for services to them while in Europe. Data in *Niles' Register* suggest that returning Americans made up about 10 per cent of the passengers on vessels entering port. No allowance was made for the purchase of land by immigrants prior to coming to the United States.

(6) Source: *Ibid.* It was assumed that each immigrant brought $50 with him. This may be an underestimate. Biddle mentions buying $12,000 from a newly arrived immigrant who informed him that he estimated that his fellow passengers brought in a total of $250,000. Biddle to Dallas, Jan. 23, 1832, Biddle Papers.

(7) Source: *Reports of the Secretary of the Treasury.*

(8) Source: Register of the United States Treasury, "Receipts and Expenditures of the United States, 1789–1848" (MS), National Archives, Washington. Data used in these calculations differ slightly from the data in Hunter Miller's *Treaties and other International Acts of the United States of America*, vol. 3. The differences are negligible, however. These indemnities were from Great Britain (Treaty of Nov. 13, 1826), Denmark (Treaty of Mar. 28, 1830), the Two Sicilies (Treaty of Oct. 14, 1832), France (Treaty of July 4, 1831), Spain (Treaty of Feb. 17, 1834), and a few minor international settlements.

*TABLE 12B*

*International Payments of the United States: Payments to Foreigners, 1821–1841*

| Year | (10) Value of Merchandise Imports | (11) Undervaluation of the Pound | (12) Freight and Shipping | (13) Navy and other Government Payments | (14) Specie and Bullion Imports | (15) Total Debits |
|---|---|---|---|---|---|---|
| | | | *(000,000 omitted)* | | | |
| 1820–21 | $54.5 | $1.6 | $.5 | $.7 | $8.1 | $65.3 |
| 1821–22 | 79.9 | 4.3 | .6 | .6 | 3.4 | 88.7 |
| 1822–23 | 72.5 | 2.8 | .6 | .7 | 5.1 | 81.7 |
| 1823–24 | 72.2 | 2.7 | .5 | .7 | 8.4 | 84.5 |
| 1824–25 | 90.2 | 3.5 | .4 | .7 | 6.2 | 100.9 |
| 1825–26 | 78.1 | 2.9 | .4 | .7 | 6.9 | 89.1 |
| 1826–27 | 71.3 | 3.5 | .5 | .8 | 8.2 | 84.3 |
| 1827–28 | 81.0 | 3.8 | .7 | .9 | 7.5 | 93.8 |
| 1828–29 | 67.1 | 2.5 | .5 | .8 | 7.4 | 78.3 |
| 1829–30 | 62.7 | 2.1 | .5 | .8 | 8.2 | 74.3 |
| 1830–31 | 95.9 | 3.7 | .9 | 1.0 | 7.3 | 108.8 |
| 1831–32 | 95.1 | 4.0 | 1.1 | .9 | 5.9 | 106.9 |
| 1832–33 | 101.0 | 1.4 | 1.0 | .8 | 7.1 | 111.4 |
| 1833–34 | 108.6 | | 1.3 | .9 | 17.9 | 128.7 |
| 1834–35 | 136.8 | | 1.5 | .9 | 13.1 | 152.2 |
| 1835–36 | 176.6 | | 1.8 | 1.0 | 13.4 | 192.8 |
| 1836–37 | 130.5 | | 1.9 | 1.2 | 10.5 | 144.1 |
| 1837–38 | 96.0 | | 1.1 | 1.3 | 17.7 | 116.1 |
| 1838–39 | 156.5 | | 1.8 | 1.3 | 5.6 | 165.3 |
| 1839–40 | 98.3 | | 1.4 | 1.4 | 8.9 | 110.0 |
| 1840–41 | 123.0 | | 1.5 | 1.4 | 5.0 | 130.8 |

(10) Source: *Reports of the Secretary of the Treasury.*

(11) Source: *Reports of the Secretary of the Treasury.* Merchandise imports from Great Britain and dependencies was multiplied by the difference between the Sterling rate of exchange and the official value of the pound ($4.44). Following Mar. 3, 1833, the pound was valued at $4.80.

(12) Source: Secretary of the Treasury, "Statistics of the Foreign and Domestic Commerce of the United States" (Washington, 1864), p. 10. Ten per cent of the foreign imports in foreign vessels was taken in estimating freight payment to foreigners. Contemporary British sources suggest that the freight rate to the United States was low, because bulky cargoes moved from the United States to Europe leaving a surplus of carrying capacity for the return trip.

(13) Sources: Register of the Treasury, "Receipts and Expenditures of the United States, 1789–1848" (MS), also Register of the Treasury, "Receipts and Statements of the Treasury, 1828–1860," VIII (MS). The series included here were those which were not offset by payments from foreigners. The following series were summed: Treaties with the Mediterranean Powers, Intercourse with the Barbary Powers, Relief and Protection of American Seamen; 60 per cent of the estimated pay and subsistence of the Navy afloat; Expenditures for the suppression of Piracy, Expenditures for the Prohibition of the Slave Trade, 50 per cent of the pay of the marines. There were minor discrepancies between the data in the *Report of the Register* and the data in the report of the Secretary of the Navy. The Register's data were for calendar years, and were prorated by the usual method to conform to the fiscal year used by the Treasury Department.

(14) Source: *Reports of the Secretary of the Treasury.*

true, but the value of exports increased even more. In so far as the large imports of this year are to be explained by the idea of errors of expectations, the errors were the larger errors of the generalized boom conditions. Imports were heavy in the year 1827–1828 but these can be attributed to the special circumstance of an anticipated increase in import duties. After 1830 there may have been an import cycle having its origin in the tendency to periodic overtrading but if so this tendency was obscured by general business conditions and the increased loans from foreigners for public improvements. One thing, however, was clear to the Bank and its clients: there were times when import requirements were overestimated and this was a fact which neither the National Bank nor state incorporated banks could safely ignore.

The decade of the 1830's was one of general expansion in the merchandise trade and a notable increase in merchandise imports. Easy money in England in the early 1830's stimulated the merchandise trade[6] by making mercantile credits available to American merchants, by facilitating a period of prosperity in England which redounded to the benefit of American producers, and lastly by touching off a wave of loans to American states and corporations which brought prosperity to the United States and also assisted in the process of paying for these imports. The years 1833–1834, 1837–1838 and 1839–1840 were exceptions to this general trend for reasons which we shall look into in Chapters X and XI.

Receipts from indemnities were irregular. The large indemnity receipts from France in 1836–1837 came opportunely for the United States. Receipts from this source may partly explain how the United States was able to import specie at a time when foreign creditors were demanding payment for merchandise and when foreign loans were becoming difficult to secure.

For a synoptic view of the international economic relations, Table 13 is useful. If we take September 30, 1830 as the dividing line it is apparent that from 1820 to 1830 a surplus on the trade and service account helped to reduce American foreign indebtedness. Payments of interest and principal on the federal debt in Europe amounted to about $26,000,000 in this period, while concurrently the United States lost only about $2,400,000 of specie. The retirement of bond issues held in Europe and maintenance of specie convertibility required that tight rein be kept on bank credit to restrain imports.

Beginning with 1830–1831 there was a ten-year interval in which the United States acquired about $50,000,000 of specie, enjoyed a surplus of merchandise imports, and paid over $12,000,000 of principal and interest on the national debt. The period of canal and railway building in the United States in the 1830's was accompanied by a deficit in the balance of payments which was covered by borrowing in Europe. The years 1837–1838 and 1839–1841 were hard times: concurrently there was a stoppage of foreign loans.

*TABLE 13*

*Net Trade and Service, Specie and Capital Accounts of the United States Balance of International Payments, 1821–1841*

| Fiscal Year | Trade and Service Accounts | | Gold and Silver Accounts | | Capital, Interest, and Miscellaneous | |
|---|---|---|---|---|---|---|
| | Net Exports | Net Imports | Net Exports | Net Imports | Net Payment | Net Receipt |
| | | (000 omitted) | | | | |
| 1820–21 | $6,638 | | $2,413 | | $9,051 | |
| 21–22 | | $13,887 | 7,440 | | | $6,447 |
| 22–23 | 2,324 | | 1,275 | | 3,599 | |
| 23–24 | 4,386 | | | $1,365 | 3,021 | |
| 24–25 | 10,532 | | 2,646 | | 13,178 | |
| 25–26 | 3,086 | | | 2,176 | 891 | |
| 26–27 | 12,929 | | | 136 | 12,793 | |
| 27–28 | | 9,689 | 754 | | | 8,935 |
| 28–29 | 8,854 | | | 2,480 | 6,374 | |
| 29–30 | 18,103 | | | 5,977 | 12,126 | |
| 1830–31 | | 16,072 | 1,709 | | | 14,363 |
| 31–32 | | 5,396 | | 251 | | 5,647 |
| 32–33 | | 1,309 | | 4,459 | | 5,768 |
| 33–34 | 8,943 | | | 15,835 | | 6,892 |
| 34–35 | | 3,938 | | 6,654 | | 10,592 |
| 35–36 | | 34,066 | | 9,077 | | 43,142 |
| 36–37 | 3,063 | | | 4,540 | | 1,477 |
| 37–38 | 26,169 | | | 14,239 | 11,930 | |
| 38–39 | | 26,650 | 3,182 | | | 23,468 |
| 39–40 | 46,448 | | | 466 | 45,982 | |
| 1840–41 | 7,810 | | 5,046 | | 12,856 | |

Short-term loans played a relatively more important part in international finance in the earlier period than did long-term loans. The Bank of the United States had a revolving credit of £100,000 and later of £250,000 normally available. At certain times this was exceeded.[7] Merchants and merchant bankers in England made credits available to Americans. The amount of this mercantile short-term credit was a large and fluctuating quantity.

Loan transactions between American governments and foreigners are presented in Tables 14 and 15. The first of these is a record of the federal government's payments on the funded debt held in Europe. Table 15 is an estimate of the issues of state and municipal securities two-thirds of which, perhaps, had found their way into foreign hands[8] by 1841. Other securities, such as the $20,000,000 of stock of the Bank of the United States, the bonds of the Farmers Loan and Trust Company, the New York Life and Trust Company, and numerous public utility issues, also were transferred to Europeans. The [London] *Course of Exchange* for January 3, 1841 listed 46 issues of state bonds and over 25 issues of banks, railways, and canal companies. The number of American security issues held in Europe was even more extensive than this semiofficial listing would suggest.

Beginning around 1832 the bond issues of American states and stocks of American corporations in foreign hands increased rapidly. Their foreign indebtedness soon expanded at a rate that made it exceed the federal debt in European hands. By 1841, the United States had a larger foreign debt than at any time in its history up to this date. In this process of disposing of American bonds and stocks, the Bank played an important role as we shall see in Chapter XI.

The general pattern of international specie movements during this period was about as follows: there was a large excess of specie imports from South America, Mexico, and the West Indies, especially following 1820; part of this was retained for domestic use and part shipped to Europe and the Orient. More specifically, during the eighteen-year period following September 30, 1820, the United States received specie imports estimated at $182,000,000. About two-thirds of this gross import came from Latin America. During this same period, the United States exported about $107,000,000: for the moment, it retained a little less than five-twelfths of the imports. To China alone Americans exported over $30,000,000 – almost one-third of the exports. Other parts of Asia received smaller but by no means negligible amounts. Europe received a little over half. These figures give point to the enormous importance attached to the East India and China trade in the days of the Bank. They explain Nicholas Biddle's pride in having developed the use of long-dated bills of exchange (the India bills) as partial substitutes for the use of specie in the Far East. They reinforce the idea developed elsewhere that the Bank

*TABLE 14*

*Annual Payments to Foreign Creditors on Account of the Interest and Principal of the Public Debt, 1816–1831*

| Date | Payments | | Total Payments |
|---|---|---|---|
| 1816 | Interest on Louisiana stock | $617,174.15 | |
| | " " 3% stock | 246,090.00 | |
| | Reimbursement of old 6's | 300,080.00 | $1,163,344.15 |
| 1817 | Interest on Louisiana stock | 325,913.69 | |
| | Redemption of Louisiana stock | 419,189.74 | |
| | Interest and reimbursement of old 6's | 300,080.00 | |
| | Interest on the 3's and other stocks | 400,000.00 | 1,445,183.43 |
| 1818 | Interest on Louisiana stock | 46,720.04 | |
| | Redemption of Louisiana stock | 3,459,161.73 | |
| | Interest and reimbursement of old 6's | 250,000.00 | |
| | Interest on 3% stock | 600,000.00 | 4,355,881.77 |
| 1819 | Interest on Louisiana stock | 190,743.82 | |
| | Principal of Louisiana stock | 539,432.00 | |
| | Interest and reimbursement of deferred 6's | 100,000.00 | |
| | Interest on the 3's and other stocks | 946,000.00 | 1,776,175.82 |
| 1820 | Interest on Louisiana stock | 188,133.87 | |
| | Principal of Louisiana stock | 1,195,500.00 | |
| | Interest on 3's and other stocks | 1,093,199.00 | 2,476,832.87 |
| 1821 | Interest on Louisiana stock | 36,560.88 | |
| | Principal of Louisiana stock | 1,771,190.00 | |
| | Interest on 3's and other stocks | 1,166,170.00 | 2,973,920.88 |
| 1822 | Interest on the several stocks | 1,213,253.00 | 1,213,253.00 |
| 1823 | " " " " " | 1,346,729.52 | 1,346,729.52 |
| 1824 | " " " " " | 1,399,491.45 | |
| | Principal of 7% stock | 1,342,414.36 | |
| | Exchanged 6's of 1812 | 308,679.50 | 3,050,585.31 |
| 1825 | Interest on the several stocks | 1,161,557.36 | |
| | Principal of Treasury Note stock | 351,503.00 | |
| | Principal of 6's stock of 1812 | 918,586.90 | 2,431,647.26 |
| 1826 | Interest on the several stocks | 1,129,053.92 | |
| | Principal of the 6's of 1813 | 1,460,360.88 | 2,589,414.80 |
| 1827 | Interest on the several stocks | 989,032.55 | |
| | Principal of 6's of 1813 | 1,594,293.58 | 2,583,326.13 |
| 1828 | Interest on the several stocks | 929,640.00 | |
| | Principal of 6's of 1814 | 1,579,209.00 | 2,508,849.00 |
| 1829 | Interest on the several stocks | 837,616.33 | |
| | Principal of 6's of 1814 | 1,697,453.00 | |
| | " " 6's of 1815 | 1,311,303.06 | 3,846,372.39 |
| 1830 | Interest on the several stocks | 627,523.00 | |
| | Principal of 6's of 1815 | 2,769,439.00 | 3,396,962.00 |
| 1831 | Interest on the several stocks | 498,089.52 | |
| | Principal 5's of 1820 | 603,811.03 | |
| | " 4's of 1825 | 825.570.26 | |
| | " 4's (May 26, 1824) | 1,317,082.96 | |
| | " 4's (May 24, 1824) | 44,238.08 | 3,288,791.85 |

Source: U. S. Treasury, Receipts and Statements, Register's Office, No. 8, p. 88.

of the United States was an important channel through which the gold and silver of Spanish America was distributed to the rest of the world.

The rate of exchange on 60-day Sterling bills is presented in Chart V, Chapter III. In general, the rate remained close to par ($4.44) up to the time when England returned to the gold standard in 1821. In spite of the large volume of commodity imports, the "unfavorable" merchandise balance, and violent commodity price fluctuations, the 60-day bill rate on London remained remarkably stable in this period.

*TABLE 15*

*Estimated State Bond Issues, 1820–1840*

| | Time | Amount | Source of Data |
|---|---|---|---|
| Authorized[a] | 1820–25[b] | $12,790,128 | *American Almanac*, 1840 |
| Authorized[a] | 1825–30[b] | 13,679,689 | " " " |
| Authorized[a] | 1830–35[b] | 40,012,769 | " " " |
| Authorized[a] | 1835–38[b] | 108,423,808 | " " " |
| Actually issued[c] | Mid. 1838 | 123,703,750.11 | Flagg |
| Authorized[a] | End of 1839 | 175,466,578 | *American Almanac*, 1841 |
| Authorized[a] | End of 1840 | 193,038,587 | " " 1842 |
| Other debt | " | 5,328,868 | *N. Y. Shipping List* |
| City | " | 22,372,441 | June 9, 1841 |

[a] This is the most probable interpretation. The Tenth Census, VII, 523, gives a slightly different figure, which is presumably more accurate.

[b] The overlapping character of the dates was in the original data.

[c] Flagg's investigation is the source of practically all the estimates of state bond issues before the middle of 1838. It was undertaken by the New York Comptroller of Banking in the first half of 1838. Replies of varying degrees of promptitude and completeness were the basis of this report. See Azariah Flagg Papers (MS), New York State Library, Albany. The Annual Report of the Comptroller for Jan. 3, 1839 gives the data for eighteen states having a debt. Georgia and Delaware had failed to respond to Flagg's request.

Between November 1821 and February 1823, Sterling rose to a high level. The year 1821–1822 was one of heavy importations of commodities and services. More significantly, for our purposes, it was also a period in which the pound was appreciating in terms of silver. In the early part of 1819, silver was quoted in London at 5s. 5½d: throughout 1821 in the neighborhood of 4s. 11½d.[9] This change in the value of silver was roughly equal to the change in the price of Sterling bills in New York. The Bank played no spectacular role in the foreign exchange market at this time. It remained in debt to its foreign correspondent.

Foreign debt redemption probably accounted for the high Sterling rates that prevailed from October 1824 to February 1825.

The financial crisis of the latter year only raised the price of exchange to the specie export point for a brief period in the autumn. The exchange rates as well as the absence of a large specie export in 1825–1826 confirm the idea that the United States occupied a position of strength during this crisis. American merchants were either not heavily in debt to foreign merchants or they were not pressed for payment. There was no apparent reversal of the direction of international capital movements.

Exchange rates were high between September 1826 and December 1828. This, it will be recalled, was a period of heavy commodity importations made in anticipation of advances of import duties. The high exchange rates did not lead to specie exports of appreciable amounts. The Bank's specie reserves were well maintained in the neighborhood of $6,000,000. It incurred a moderate debt to its foreign correspondents at this time.

The high Sterling rates between July 1831 and June 1832 coincided with a period of credit expansion by the Bank. Merchandise importations became very heavy. Up to the middle of 1832, the Bank was a net debtor in Europe. These two circumstances accompanied as they were by the plan to retire the United States 3's caused anxiety within the Bank.

The financial crisis of 1837 brought with it, as one might expect, a period of high exchange rates (January 1837 to January 1838). The credit contraction overseas, which was mainly responsible for this, will be discussed at some length in Chapter XI. A somewhat similar crisis in 1839 left Sterling rates in New York relatively little affected. For only a few weeks at the end of 1839 did New York have rates of exchange that touched the specie export point. The Philadelphia rates reflected the general suspension of specie payments by its banks at that time. The ultimate failure of the Bank in February 1841 left the New York-London rate relatively unchanged.

The British counterpart to these American trade and financial operations calls for a brief description: the British trade in cotton, the methods of financing exports to the United States, the British market for stocks and bonds of American states, municipalities and corporations, and lastly, the policies of the Bank of England.

The Liverpool cotton market registered the world demand and supply. It also reflected the outlook for trade in cotton cloth and the speculative sentiments of cotton speculators and so-called legitimate cotton dealers. Consul Buchanan of New York wrote

in 1837, "The fall of one penny per pound in the price of cotton is equal to a diminution of means to meet engagements of Ten Millions of Dollars." [10] This decline in cotton prices occupied an important place among the "causes of Embarrassments in the Commercial Community of the United States."

Merchandise imports were managed in various ways. In the early postwar years it was not uncommon for British exporters to send goods to the United States, pay the duty and sell the goods at auction. Later the British merchants granted Americans long credits when they purchased merchandise.[11] Some merchants became merchant bankers and attained eminence in this period. Most important was the house of Baring. But others, such as W. and J. Brown & Co., were also important. Around 1833 the house of Rothschild[12] entered the picture.

These merchant bankers performed a variety of functions; they accepted bills of exchange drawn on the shipments of cotton and other commodities. They disposed of the commodities so consigned upon arrival or as instructed. Increasingly as the boom of the 1830's developed, they granted open credits to their American correspondents which permitted the latter to draw on the former with the understanding that subsequent payment would be made with bills of exchange, commodities, American stocks or specie. Finance bills became important in the mid-thirties. Lastly some of these firms undertook to sell American securities remitted by their correspondents, or failing that to borrow on the stock as collateral for their clients.

Commenting on the close connection between the London money market and American trade in 1844, *Hunt's Merchants' Magazine* said regarding the situation in the 1830's:

> The great London houses were then so liberal in their facilities, that almost any person of fair standing in the states could make large purchases of goods in the manufacturing districts, and draw upon the London banker in his own favor. The houses granting these credits usually fixed a specific day for payment; but these payments were proverbially irregular. . . The importer, who purchased goods in England on an open credit, sold them at long dates to the jobber, whose note the banks readily discounted, with the importer's endorsement. The jobber, in his turn, sent agents, drummers, and salesmen, in all directions over the country, and offered almost unlimited time to the country dealers. These latter bought largely, giving their notes at eight, twelve, and eighteen months; which notes were discounted on the Atlantic border, with the jobber's endorsement, and made payable at the bank in the interior nearest the dealer's place of residence. The

country dealer, possessing such facilities of purchasing, in his turn sold to the consumers on credit, waiting "another crop" for his pay. . . This whole chain of indebtedness was sustained only by the renewal of notes, and was continued as long as the banks were able to do this, or until the London houses demanded payment.[13]

There developed in London two money markets of especial importance to Americans and to the Bank of the United States: the market for bills, and the market for stocks. Beginning about 1829, the connections of the former and the Bank of England became close. In that year the Bank of England advanced to Overend, Gurney & Co. the sum of £10,000.[14] As we shall see, the dependence of the bill market on the Bank of England increased. The Bank of England was able in 1837 through its discrimination against the bills drawn on American houses to precipitate a panic in the United States.

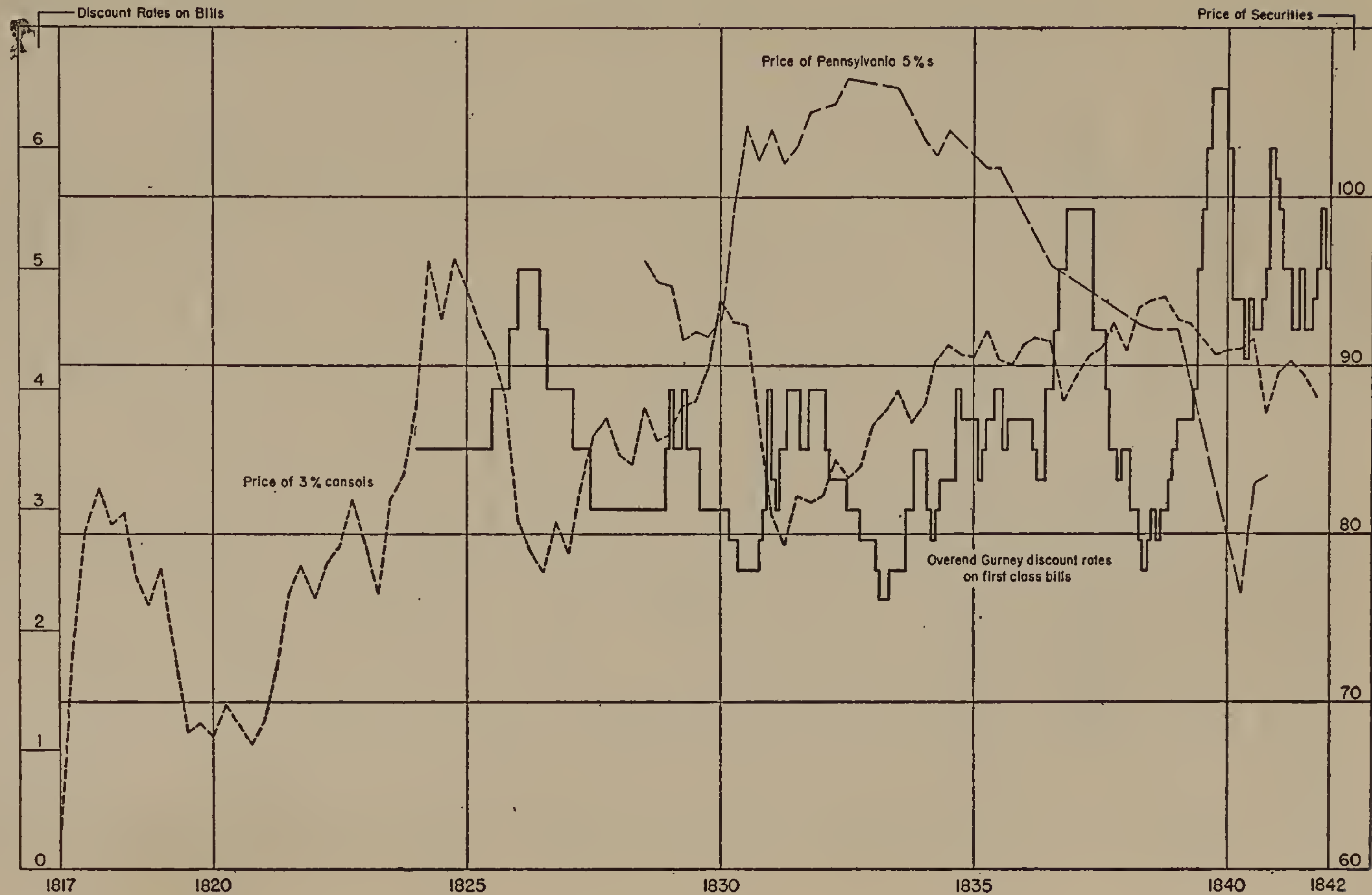
Following 1815, London became the leading source of long-time capital. Listings on the Exchange indicate the trends in overseas investment. Immediately after the war, British foreign investments were made in European issues. In the years before 1825 the bond issues of the newly created South American countries were popular. When these went into default London turned toward the United States for its foreign purchases.

At the close of the war, the only American issues traded extensively in London were the United States 3's, the 6's, and the United States Louisiana bonds. Soon after the Bank of the United States was created, its stock was quoted in the market. Beginning with 1823, New York State issues (the 5 per cent and 6 per cent issues) made their appearance. The bonds issued to finance the Erie Canal found their way to England almost at once.[15] By 1825 four states, New York, Virginia, Pennsylvania, and Louisiana and two municipalities, New York and New Orleans, were represented in the listings. In 1840 the numerous bond issues of sixteen states and the stocks or bonds of twenty-five banks and railroads were listed.[16] Here was a well-organized market in which many American issues could be readily converted into cash. It was a standing invitation to American banks to engage in investment banking.

The sale of securities not only provided the funds for covering the unusually large deficit in the balance of payments on the merchandise account, but also was the means whereby the Americans siphoned the gold out of England, which so gratified Jackson and Benton. The Bank of England when its gold reserves were

## CHART X

*Interest Rates and Bond Prices in London, 1817–1842*




For sources, see page 307

dwindling regarded this process of trading American securities for British gold with disfavor. The Governor of the Bank of England informed representatives of six out of the seven American houses in October 1836 "that excessive facilities given to foreign bankers, 'either as open Credits or in anticipation of the sale of the States' Securities in this country,' were objectionable to him and the Company as note issuers." [17]

The Bank of England had to intervene in the money market from time to time to maintain its gold reserves. Necessarily this affected the market for bills and for stocks. Thus the gold reserves of the Bank of England became a matter of concern to Americans. What the Old Lady of Threadneedle Street did affected both the American ability to borrow in London and also the American ability to acquire or hold on to the gold reserves of her banks.

One factor in the British situation throws a little light on a possible crop-cycle theory of business cycles. In years when the weather in the British isles was unfavorable, it became necessary for the British to import large amounts of food. This in some instances caused depletion of the Bank's gold reserves and a restricted supply of Bank of England credit. In more than one instance, the most spectacular of which occurred in 1838–1839, the weather of the British isles started a chain of events that led to restricted credits for the British and for the world.

In Chart X are various indices of the state of credit in the British Isles. The discount rate for first-class bills confirms the idea that the financial crisis did not become acute until 1839. After the crisis of 1837, the United States made a quick recovery and so did the London money market. After the 1839 crisis, the recovery was much slower, a result, in part, from the diminished availability of foreign capital. Chart X by its comparison between the prices of British consols and the prices of certain American bonds shows the extent to which American security issues had fallen into disrepute. After 1839, the London money market was definitely bearish toward the United States – and with reason.

American trade, American prices, American transportation and American banking were thus tied to development overseas. Internationalism prevailed in trade and finance. Developments in the United States were affected by developments in Great Britain and vice versa. This unfolding story with its significance for the Bank is the subject of our next chapters.

*PART TWO*

# ANNALS OF THE BANK

# VII

# Off to a Bad Start

*1816-1818*

The Second Bank of the United States was ready to operate in January 1817. William Jones [1] (1760–1831), its first president, had been a soldier in the Revolutionary War. Subsequently, he became a merchant in Charleston and still later in Philadelphia. Jones, always interested in politics, was elected to the United States House of Representatives in 1801, where he served one term. He was Secretary of the Navy in the critical years 1813 and 1814. Jones was one of that minority of propertied men friendly to the Republican administration, and he was regarded highly by President Madison and Secretary A. J. Dallas. However, Jones's breadth of experience had not been sufficient to assure him business success. In April 1815, he was compelled to make an assignment of his property as his debts exceeded the value of his assets by about $30,000.

Jones, long a friend of the idea of a national bank, was appointed by Secretary Dallas to be a commissioner to handle subscriptions[2] to the stock of the Bank. In this role he made himself sufficiently well known and popular to be elected president of the institution. Jones's political adroitness must have been of a high order, for he attained this office in spite of the opposition of the powerful Stephen Girard. Girard, a proponent of the Bank and a very large stockholder at this time, opposed Jones whom he thought not to be a "man of solid means."[3] Nevertheless, within less than two years of going through bankruptcy, and over the opposition of one of America's leading financiers, Jones not only became president of the Bank but received a letter of congratulation[4] from James Monroe, soon to become President of the United States.

The new institution was confronted immediately with three major problems: organizing the Bank, reforming the currency, and becoming an effective instrument for handling the Treasury

deposits and payments. Under the chaotic financial conditions of the period none of these tasks was easy.

Unfortunately for the Bank, it received only a small amount of specie in payment for its stock. The first installment (due June–July 1816) was paid in bonds and Treasury notes as well as cash, and the second and third installments were met with notes of the Bank, checks on the Bank, large amounts of United States obligations and some specie. The entire subscription of the government was in the form of a $7,000,000 issue of 5 per cent bonds. Almost $21,000,000 of the subscriptions for the Bank's stock was in United States government obligations of one sort or another. Important blocks of stockholders in Philadelphia and Baltimore paid for their stock by drawing on balances created at the Bank by discounting on the Bank's stock as collateral security. The critical Spencer Report of a later date ironically characterized this as "an operation of more potency in creating specie, than was ever ascribed to the fabled finger of Midas." [5]

To make sure of having adequate cash reserves, the Bank sent John Sergeant to London in December 1816 to secure specie. He was also authorized to establish an agency for the payment of dividends. He arranged with Alexander Baring and Reid, Irving and Company for a purchase of specie on the security of United States 6's as collateral. The advance bore a rate of interest of 5 per cent and was due and payable on January 1, 1819. The circumstances under which this contract was made were not propitious. Formidable competition for the world's stock of the precious metals arose from the fact that this was the period of payments of the French indemnity and also the era of restoration of specie convertibility in middle and eastern Europe. Subsequently, further specie importations had to be made and these were done through Thomas Wilson and Company of London and Thuret and Company of Paris.[6] During 1817 and 1818, the Bank imported over seven millions of specie at a cost of over half a million dollars. In the opinion of President Jones, there was plenty of specie in the country. What was needed was an impressive showing to restore confidence and bring it out of hiding.[7] Events soon proved this forecast to be wrong.

Sergeant's second objective was achieved when, in June 1817, Baring Brothers and Company became the Bank's agent for payment of dividends to foreign stockholders. The Bank agreed to remit these dividends free of expense to the foreign shareholder.

For these arrangements there was a good reason: they increased the attractiveness of the Bank's stock to European investors and thus improved its usefulness for remittance in settling foreign indebtedness.[8] At this juncture this was an important consideration, for the American debt to Europeans was very large and an obvious threat to the maintenance of specie convertibility by the Bank. A second motive of some importance was supplied by the desire of speculatively inclined officers of the Bank to enhance its market value by making a market for it in Europe. Speculative gains provided a motive for the establishment of the Agency in Europe but they did not supply the sole motive.

Jones was bombarded with suggestions from politicians and the public as to suitable places for the location of branches and with recommendations for men as directors. The Treasury especially wanted branches at New Orleans and in Ohio. A branch in Ohio was particularly important because receipts from the sales of public lands were accumulating there in depreciated currency. As late as 1826 the Treasury was urging the Bank to establish branches in Detroit and Maine.[9] Names of branch directors were suggested with the significant qualification that they had "political feelings congenial with those of the government."[10] Even more pointed was Secretary Crawford's observation:

> I have been informed that some understanding has been entered into, that the politics of the bank shall be that of the administration, and that its political character shall change with that of the government. A regulation of this kind in an institution simply monied, would certainly be wise, with a view to its duration, and prospects, but I confess that I am not prepared to expect the moderation which a regulation of this nature requires of the political partizans . . . in every institution of this nature.[11]

Attempts at political control thus made their appearance early in the history of the Bank. At this time the Bank officers seemed to acquiesce.

Reform of the currency was a legacy from the recent war with England. In 1816 the currency, outside of New England, consisted of incontrovertible bank notes of varying degrees of depreciation. War finance had followed a not unfamiliar pattern: heavy expenditures, inadequate taxation, and reliance on borrowing. In New England, where the war was very unpopular, few bonds were purchased. Most of the United States bonds and Treasury notes were sold for the notes of or deposits in the banks

of the Middle and Southern states. New England's objection to the war did not go so far as to inhibit some of her merchants from selling a large quantity of merchandise to the government and to the rest of the country. Paid in notes and drafts on the Middle and Southern states, the people and banks of the Northeast redeemed them in specie and drained the rest of the country of most of its cash. In August 1814, when the British captured Washington, the banks outside of New England suspended specie payments, domestic exchange rates began to fluctuate, and throughout most of the country currency was at a discount in terms of specie and of foreign exchange.

The "chaos" in the currency embarrassed the government and outraged the hard money sentiment in the country. Unequal degrees of currency depreciation made import duties and other federal levies unequal in their incidence in different parts of the country. Congress, therefore, created the Bank in 1816 and the Treasury bestirred itself to bring about an early resumption of specie payments. Not everyone was pleased with the prospect of a speedy resumption, however. Anticipation of a return to specie payments brought with it some reduction of bank credit which was felt by business in the last half of 1816. Banks with inadequate cash reserves counseled moving slowly, and business interests, inconvenienced by the "tight money" which early resumption involved, were not happy.

Resumption at this time was favored by the fact that American export staples were selling for high prices in the world markets and by the willingness of Europeans to purchase American government bonds and the stock of the Bank. These two sources of foreign exchange were a partial and temporary bulwark against a possible export of specie which the Bank was in no condition to meet. By and large, however, the circumstances were unfavorable to resumption. The legacy from 1816 of mercantile foreign debt for the $64,000,000 apparent excess of merchandise imports was a handicap. The carrying trade, from which Americans had derived so much income from abroad in the preceding years, now became less profitable because of increased competition from British and Continental carriers. Probably the one greatest handicap was the demand for silver arising from the revival of the trade with the Orient. At this time the principal cargo of ships sailing for China and India seemed to consist of silver dollars.

Congress, by the joint resolution of April 30, 1816, stipulated

that all payments to the United States should be made in gold and silver, treasury notes, or notes of the Bank of the United States on February 20, 1817. This resumption date was regarded as premature by the banks of New York, Philadelphia, and Baltimore and for a time they held out for July 1. A combination of government pressure and Bank leniency, however, finally persuaded the state banks to resume in February. On February 1, following the lead of the Treasury,[12] the Bank submitted the following proposals to a convention of State banks to induce them to risk specie payments on the 20th:

> That in the liquidation of the balances which may be due by the receiving banks, the Bank of the United States will credit those banks, respectively, with the amount of their checks upon banks which may be parties to this agreement.
>
> That the whole of the public balances in the receiving banks in New York, Philadelphia, Baltimore, and Virginia, be transferred to the Bank of the United States on the 20th of this month, and retained by the said bank until the 1st of July next, when the same shall be paid off, together with the interest thereon.
>
> The payment of the balances which may accumulate against the aforesaid banks subsequently to the transfer of the balances first mentioned shall not be demanded by the Bank of the United States until the said bank and its branches shall have discounted for individuals (other than those having duties to pay) subsequently to the 19th instant the following sums, to wit: For those in New York, two millions; for those in Philadelphia, two millions; for those in Baltimore, one and a half million; for those in Virginia, five hundred thousand dollars; provided, that if the said bank shall be willing to discount, and shall not have the required amount of good paper offered within the term of sixty days from the 20th instant at New York, Philadelphia, and Baltimore, and within the same term after the operations of the offices of the said bank in Virginia shall have commenced, the aforesaid banks shall, at the expiration of that time, at the aforesaid places, respectively, pay to the Bank of the United States the balance due by them respectively.
>
> That the Bank of the United States will engage to discount the required amount at the respective places, and within the time mentioned in the preceding articles, provided good paper to that amount shall be offered.
>
> That in the event of the Bank of the United States and its branches not having a sufficient amount of good paper offered at the respective places mentioned in the fourth article within the period therein stipulated, then the Bank of the United States will engage to discount for the said banks the amount of the deficiency at the respective places, according to the amount of the capitals of the said banks respectively.
>
> That the aforesaid banks shall exchange with the Bank of the United States and its branches, from day to day, all such notes of either as the said banks may receive; and an interest account from the 20th instant to the 1st of July shall be liquidated and settled in the usual manner.

That the Bank of the United States, and the incorporated banks of New York, Philadelphia, Baltimore, and Virginia, will interchange pledges of good faith and friendly offices, and upon any emergency which may menace the credit of any of the aforesaid banks or the branches of the United States Bank, will cheerfully contribute their resources to any reasonable extent in support thereof. . .[13]

The specie convertibility which was achieved on February 20 was neither universal nor genuine. Banks in important cities of the Atlantic coast did in fact pay specie. In these centers the price of Spanish dollars verified the claim of the banks and became close to par. Elsewhere the tenuous character of the resumption was made manifest by the continuing large discounts at which the notes were quoted. In Philadelphia, for example, the notes of Ohio, Kentucky, and Tennessee banks were listed at a large discount. Newly created banks, of which there were many, seemed to be of especially doubtful repute. Even in New York State there appeared to be some uncertainty about the prospects of effective specie convertibility. There the legislature was reported to have imposed a penalty of 12 per cent on all bank notes not redeemable by June 1.[14]

During this period, the Bank more than lived up to its promises. Loans at the Philadelphia office and at the branches in the West and South were generally more than the Bank had agreed to make in the proposals of February 1. At the end of a year and a half of operation, the total discounts of the Bank were about $41,500,000. By July 1818, this policy had brought the Baltimore branch into debt to the Philadelphia and other offices by almost $9,000,000. The Cincinnati branch owed almost $2,000,000 and the branch at Charleston almost $3,000,000. At Boston and New York, on the other hand, the branches did comparatively little business. Because the Bank's loans were heavily concentrated in the "interior" they were and of necessity had to be slight in the sound money areas. This policy, while popular in many areas and generally in accord with the wishes of the Treasury, had the unfortunate effect of reducing the pressure on the state banks to contract credit and retire their note issues.

At this time, the Bank was a large creditor of the state institutions: to it had been transferred the Treasury's balances with them. However, because of its commitments of February 1 the Bank took a benign attitude and state banks were not pressed for specie. The return to specie payments was an apparent suc-

cess and the day of reckoning was postponed until the latter part of 1818.

The Philadelphia office was aware of some of the problems which this lenient attitude was creating but it lacked either the will or ability to take effective action. The Lexington branch was advised, on October 4, 1817, to secure redemption of state bank notes in specie or the equivalent. This advice had little apparent effect. To the suggestion that the Bank receive only local (and easily collectable) paper on government deposit, the Secretary of the Treasury pleaded inconvenience to the Treasury. If the Bank would not take bank notes generally, he suggested that the Treasury would have to make "other arrangements" with state banks.[15] The Treasury's opportunist attitude was shown a few months after Jones left the presidency by its suggestion that if the Bank was embarrassed by the presence of too many state bank notes, it pay them out to the public as fast as possible.[16]

On the subject which became so controversial at a later date, namely, the conversion of the Bank's own notes into specie at every office, Jones, as early as July 20, said that it was "utterly impracticable so to distribute the resources of the bank as to be prepared at all times, and at all points, to meet the demands in gold and silver, which the operations of commerce, the policy of other banks, and the subtlety of brokers may produce . . . The bank is bound to pay its bills at the stipulated places of payment only . . ."[17] Secretary of the Treasury Crawford warned Jones against the "political consequences" of the feeling of some of the state banks which were being "forced to narrow limits."[18] In these early days the policy of the Bank was feeble. One of the consequences of this feebleness was the willingness to follow the advice and yield to the pressure of the United States Treasury.

In 1817, the gross debt of the federal government was reduced about $20,000,000. Large amounts of interest-bearing United States Treasury notes as well as old 6's and 3's were retired. A debt-retirement operation of this magnitude would normally have had perceptible deflationary effects, but so expansive was the credit policy of the Bank and banks generally at this time that such pressures were not very noticeable. Business prospered, and merchandise imports, after being greatly reduced in the fiscal period of 1816–1817, rebounded to a large figure which produced an apparent excess of imports of $28,000,000 in 1817–1818. This prosperous state of business enhanced the revenues of the federal

government from import duties and from sales of public lands. Specie in the country and in the vaults of the Bank did not increase.

The Bank operated on a slender specie reserve from the very beginning: during the first two years of its life specie on hand never amounted to more than $2,800,000, except once. In this instance the excess was slight and prevailed for only a short time. Specie reserves were slender in spite of the importation of $7,300,000 of specie from Europe. These imports were especially heavy in October and November 1818, at a time when the premium on Spanish dollars reached 6 per cent in Philadelphia. Notes of the Bank throughout most of 1818 were redeemed in specie which was in turn sold in the market at a handsome profit.[19]

The premium on Spanish dollars appeared in the open market early in the spring of 1818. In March it was 2 per cent, in April, 3 per cent, and in June, 4 per cent. The attempt to maintain specie convertibility by continuing importations was useless under these conditions. At the time this premium appeared, the officers of the Bank were aware of the need for a reversal of their hitherto generous credit policy. Their error was in not having anticipated these results of their course of action and in their ineffectiveness when once they had resolved to alter their course.

At first the Bank, in its efforts to secure a uniform currency, redeemed the notes issued at the branches north of Charleston at whatever office they were presented. They were immediately recognized as a convenient means of remittance to the important eastern commercial centers and gravitated in large numbers to New York and Boston. The redemption of these notes at the branches there required the use of most of the Bank's newly imported specie. Up to December 1818 Boston received $1,500,000 and New York $6,300,000 for this purpose. In spite of this, the former office had only $9000 dollars and the latter $65,000 of specie at the end of this period.

In the South and West the branches did a lively business. The merchandise trade was active and extensive speculations in land were under way. The latter were significant for the Bank in a number of ways: they created large balances to the credit of the Treasury which had to be transferred from frontier areas to the eastern creditor areas. The former acted directly to further the remittance of the Bank's notes to the East. At this time, the *Kentucky Reporter* remarked:

There is one cause in the western country which has operated very powerfully in producing the present state of things. . . I mean *speculations in public lands*. Capitalists, both real and fictitious, have engaged very extensively in this business. The banks have conspired with the government to promote it; the former by lending money to the speculators, and the latter by its wretched system of selling the lands on credit. Nearly all the money which is paid, goes over the mountains; the government has but little use for it in the western country . . . this cause, like the balance of trade, which has also brought us so much in debt, must continue to operate, with increasing force, as long as the present system continues.[20]

On March 19, 1818, the Boston branch refused the bills and notes of the southern branches. The directors acted and then informed President Jones of their decision. Specie reserves at Boston amounted to about $14,000 as late as June 25. By August 28, this rule was made general and each office was authorized to receive and pay only its own notes — unless the notes were tendered in payments due to the United States or were a part of the deposits of the collectors of the revenue.[21] In Philadelphia, branch notes depreciated about 1 per cent in the open market. Notes and bills for collection were to be taken only if the persons depositing them would agree to accept payment at the place of collection. The offices of the Bank were ordered to refrain from drawing drafts on one another unless they were a part of a genuine business transaction.[22]

By the middle of 1818, the directors of the Bank recognized the precariousness of the situation. The New York banks were making peremptory demands for specie. The New York branch was indebted to local institutions for more than $850,000.[23] In the offing was the prospect of the redemption of the Louisiana stock. On July 20, 1818, the directors determined on a policy of general curtailment which they outlined as follows:

(1) "That the reduction of the discounts at this bank, and its offices at Baltimore, Richmond, and Norfolk, be forthwith commenced, and continued at the average rate of at least twelve and a half per cent. on the amount of the income on each discount day." Philadelphia, $2,000,000; Baltimore, $2,000,000; Richmond, $700,000; Norfolk, $300,000.

(2) "That the president be required to demand of the Bank of Columbia . . . a satisfactory assurance, that the large balance which is now, and has long been due from that bank to this institution, be discharged . . . so that the whole shall be liquidated by the 15th day of October next. . .

(3) "That the cashier of the office at Washington city, be directed to demand payment of the balances which may be due to that office by the other banks of the District of Columbia. . .

(4) "That the cashier of the office at Cincinnati, be directed to demand the reduction of the balances which may be due by the state banks in that place, at the rate of at least 20 per cent. per month, until the whole shall be extinguished. . ." [24]

The policy of contraction was less successful than the directors had hoped. Loans and discounts declined in the first months following the order but after that no further reductions were made. Therefore, on October 30, the board at Philadelphia once again ordered the branches to follow a restrictive course. The branches at Baltimore, Richmond, and elsewhere which had been tardy in contracting credit were ordered to comply. Only after this second order was there a perceptible lessening of collateral loans on the stock of the Bank. On this date, too, the offices were again forbidden to draw drafts on one another. The offices of the South and West were called on to send $700,000 of specie to the East, and they were forbidden to accept the notes of non-specie-paying state banks. The branch at Cincinnati was advised not to extend further credit to the local state banks until the balances already due from them were paid. The board authorized a further importation of specie from France amounting to $1,500,000.[25]

The crisis at the Bank and in the country at large coincided with heavy redemptions of the United States Louisiana bonds. Over $4,500,000 of this issue were retired on October 21. Three and a half millions of these payments were made to Europeans.[26] Not for many years were the government remittances to foreign bondholders again so large. The retirement of this bond issue depleted the Government's balance at the Bank very greatly between October 1818 and February 1819. Concurrently the Bank's specie declined about $600,000, its portfolio of foreign bills by $1,100,000, and its balances in the state banks by $2,300,000. The Treasury reduced its balance by $6,000,000; the Bank reduced its loans by half that amount. When criticized for making harsh demands on state institutions, the officers replied quite justly that the government left them no choice.

The last quarter of 1818 ushered in a world-wide decline in commodity prices. As we have seen, both export and import prices fell very rapidly — the former much more than the latter. Between the middle of 1818 and 1819 the prices of both cotton and tobacco fell 50 per cent. These price declines, though they followed the

beginning of pressure on the state banks, were hardly caused by this pressure. Two important European developments affected the prices of American agricultural products: a bumper crop in Europe after two years of poor crops, and a general price deflation and depression incident to the plans for a return to specie payments in Europe. Interest rates were 5 per cent in Amsterdam, 7½ per cent in Antwerp, and 10 per cent in Hamburg. Specie at the Bank of France declined from $117,000,000 in the summer of

*TABLE 16*

*Treasury Balance at the Bank of the United States and Loans Outstanding of the Bank, 1818*

| Date | Treasury Balance[a] | Loans of Bank[b] Personal Security | Loans on[b] Bank Stock | Total Loans[b] |
|---|---|---|---|---|
| July 1818 | $7,967,775.14 | $30,818,932.50 | $10,591,811.41 | $41,458,985.27 |
| Oct. 1818 | 9,136,527.57 | 27,841,902.55 | 10,335,211.46 | 38,622,445.43 |
| Jan. 1819 | 2,856,393.55 | 27,092,278.13 | 8,363,291.88 | 35,786,263.79 |

Source: [a] U. S. *Sen. Doc. 16*, 23 Cong., 1 sess., I, 4–5.
[b] U. S. *Sen. Doc. 17*, 23 Cong., 2 sess., II, 204.

*TABLE 17*

*Debtor-Creditor Relations between the Bank and the State Banks, 1818*

| Date 1818 | Due from State Banks | Due to State Banks | Net Balance with State Banks | Notes of State Banks on Hand |
|---|---|---|---|---|
| July 9 | $4,657,217.61 | $2,194,153.94 | $2,463,063.67 | $2,392,698.12 |
| Dec. 1 | 4,337,569.21 | 673,884.82 | 3,663,684.39 | 2,039,001.58 |

Source: U. S. *House Doc. 92*, 15 Cong., 2 sess.

1818 to $34,000,000 in the following winter.[27] Russia, Austria, and other countries were importing specie from France to replace paper money retired from circulation. The demands on England for specie were heavy. England too was contemplating a return to specie payments in the near future. On October 15, the Bank of England announced that it would not discount bills with more than sixty days to run.[28]

One effect of the money crisis in the United States was to reduce imports. In value terms they declined from about $122,000,000 in 1817–1818 to $87,000,000 in the next fiscal year. There was a decline in physical as well as in value terms. On the other hand, while merchandise exports were reduced in value from

$74,000,000 to $52,000,000 at this time, they were not less in physical units. This was the characteristic pattern of events in the international commodity markets in periods of commercial crisis. A second effect of the developments of the last half of 1818 was a widespread suspension of specie payments by state banks. The Bank of the United States in its desire to secure payment for notes and for balances due to it appeared to be the aggressor. Throughout Pennsylvania, Maryland, Ohio, Kentucky, Tennessee, and in the West and South generally the state banks stopped payment and their notes depreciated and fluctuated in value.

So widespread was the criticism of the Bank that in November the United States House of Representatives appointed a Committee to investigate and report on it. This Committee, under the chairmanship of J. C. Spencer, made a number of revelations which contributed greatly to the Bank's bad name. At Baltimore they discovered that the officers of that branch were using their official positions to enable them to carry on extensive speculations in the Bank's own stock.

The item "Discounts on Bank Stock" appeared on the Bank's balance sheet for the first time on October 1817, about the time when the last installment on the stock was payable. It represented loans on the security of the Bank's own stock as collateral to shareholders in the company. At first, loans on the security of this stock were made at par but by August 1817 the directors had accommodatingly authorized loans up to 125 per cent of the par value. These loans totaled about $10,000,000 in the October statement: $6,000,000 were made in Philadelphia and $3,000,000 in Baltimore. At the end of its first year of business about one-fourth of the Bank's discounts were on the security of its own stock. Officers and directors at Philadelphia and Baltimore were the most important borrowers in this class.

Critics have been justly severe on the Bank for making these loans. The Bank incurred serious losses when the price of the stock collapsed in the latter half of 1818; many of these borrowers were unable to fulfill their obligations to the Bank. It was partly because of these losses that the Bank had to suspend dividend payments between 1819 and 1821. More important was the fact that this type of loan increased credit at a time when the Bank, in its own interest and in the interest of maintaining specie payments, should have been chary about granting loans. Most important of all, was the damage done to the Bank's reputation

when the story of these loans was made public. The loans appeared to be just what they were in many cases, a means to enable officers of the Bank to speculate in its own stock while putting up little or none of their own money. The Bank never quite lived down the odium which these revelations brought upon it.

Jones himself was a speculator. He dealt in over 2650 shares between October 1817 and August 1818. Early in 1819 he was still the owner of 1165 shares. These he had presumably not purchased out of his savings from his salary of $6000 as president of the Bank or his accumulations since the days of his bankruptcy in 1815.[29]

As early as May 1817, Buchanan, president of the Baltimore branch, approached Jones about loans on Bank stock.[30] He pointed out that the federal government proposed to retire some of the funded debt held by the Bank on or before July 1. This would deprive the Bank of an earning asset. He then argued that the wants of commerce would not supply enough business paper to replace the funded debt, and concluded by saying that he and Smith and Williams of Baltimore had made a large purchase of Bank stock and planned to send it to England where they would pledge it as collateral for a loan with which to complete payments. He offered to give this business to the Bank. Soon thereafter, the policy of stock loans was adopted.

This policy probably did not look so objectionable at the time it was adopted as it did later. Loans of this type were not uncommon among state banks, nor were loans to officers uncommon: quite the contrary. The speculative aspect of these transactions doubtless appeared more reprehensible after the speculations failed. Such loans were certainly inappropriate for such a bank as the Bank of the United States, charged as it was with important public responsibilities.

The occurrences of the last half of 1818 started a chain of events in Ohio which revealed some financial losses of the Bank and entangled it in a series of conflicts with the authorities of that state. The branches in Cincinnati and Chillicothe had done an active business in 1817 and by July 1818 had almost as large a volume of discounts as New York. Public deposits there were large, for Ohio was an area where government land sales were extensive. These public deposits put the state banks at the mercy of the branches. In December 1818, the item "Due from state banks" was second in size only to that of Philadelphia: in the

former it was $780,000 and in the latter $1,260,000. The board's instructions of October 30, ordering the branch at Cincinnati not to grant further credits to Ohio banks until the balances already due were paid, precipitated a crisis. Three Cincinnati banks suspended specie payments and business failures were numerous. Foreclosure proceedings brought large amounts of real estate into the possession of the branch. Popular animosity was aroused. Politicians and publicists began to say that the Bank was unconstitutional and an institution of special privilege.

By the Act of February 8, 1819, the legislature of Ohio placed a tax of $50,000 on each branch of the Bank located in that state.[31] The Bank invoked the aid of the courts, but not before the sheriff had invaded the branch at Chillicothe and taken about $120,000 from the vaults of that office.

Injunctions, law suits, arrests, further legislative investigations, and finally more legislation followed. Feeling became so strong that a statute was enacted in January 1821 which withdrew "the protection and aid of the laws" of the state from the Bank and its branches. This controversy was finally settled in favor of the Bank in 1824 in the case of *Osborn* vs. *The Bank of the United States*. The Bank won a legal battle but it took many years to overcome the animosities engendered during and following the 1818–1819 crisis.

This sequence of events indicates how difficult it was for the Bank to function in these times. It will be recalled that the Cincinnati branch was established at the insistence of Secretary Crawford. When the branch became a going concern the currently accruing deposits that came to it from the Treasury at this point gave rise, in turn, to claims by the branches on Ohio state banks. When the crisis came and when the branches tried to make the state banks pay specie they, like the Treasury before them, found the Ohio currency almost "useless" for a time. The Bank was one link in a chain that extended from the purchasers of public lands to the United States Treasury. When the chain was tightened one link broke and that link was the Ohio banks. They blamed the next adjoining link: that link was the Bank.

The revelations of the Spencer Committee, the business and financial distress that began in the last half of 1818, and the widespread resentment of the state banks against the so-called harshness of the Bank made that institution very unpopular in Congress for some time.[32] Amid rumors circulating that it might suspend

specie payments, resolutions were introduced calling on the Bank to show cause why its charter should not be forfeited, recommending the withdrawal of the government deposits, declaring that its notes should not be receivable in payments to the United States, and calling for a repeal of its charter. In business and government circles men began to think that Jones should be replaced by a stronger president.

Jones, with some justice, blamed the federal government for many of the troubles of the Bank in 1818.[33] The payment of the foreign bondholders had been a cause of specie exports. The redemption of the federal debt in the United States had given American capitalists claims on that important specie-paying institution, the Bank, just at a time when many of them desired to export silver to the Orient. Second, he rightly contended that the Bank had been expected to bring about a general return to specie payments at a time when the state banks, generally speaking, were lamentably weak.[34] He would have agreed heartily with the statement that Nicholas Biddle made years later. In a reply to Cambreleng, Biddle said: "from the first hour of its creation [the Bank of the United States] . . . was urged and goaded by the Government into an enlargement of its business . . . and this fault, if fault there were, belonged rather to the Government than to the Bank." [35] Jones argued that if the Bank had been less easy-going, the general resumption of specie payments would have been impossible. His closing observations contained animadversions on the "sublimated morality of our pin-feathered statesmen" — his critics.[36]

The Bank never quite lived down the bad name it acquired at this time. That it had allowed speculative insiders to use its resources in the quest of speculative gains was undoubtedly true. That it had been feebly managed at a time when rigorous scrutiny of loans and discounts was needed was also true. Had it followed a more restrained loan policy in the first year and a half of its life no one could doubt that it would have been able to weather the financial storms of 1818 and do this with less danger to itself and less pressure on the state banks and upon business than had been the case.

Nevertheless, the public went too far in its condemnation of the Bank. The press represented it as largely responsible for the general economic difficulties of the period. Popular economics of the day overlooked the fact that the Bank was merely one player

in a complex drama and it exaggerated the power of the Bank over the economic activities of the country. It is probable that land speculation would have occurred in the West — Bank or no Bank. Land speculation was a favorite pastime in America for many years. The high agricultural prices of 1817 and the early part of 1818 were not attributable to the Bank, but they were a potent force making for speculative purchases of land. The agricultural boom burst in the latter part of 1818 for reasons having their origin in the world market for agricultural commodities, not in the Bank. The land boom produced large government revenues in the West used for debt retirement purposes in the East — and the Bank was not responsible for this. The policy of debt retirement, both the domestically held debt and the foreign debt, involved a transfer problem from the West to the East, and from America to Europe which was bound to diminish the slender specie holdings of the banks in the West. But the Bank was not fundamentally responsible for this public debt policy nor for the domicile of the revenue or of the debt. The state banks everywhere were weak. A "tough" policy toward the state banks in 1817 might have made them better able to withstand the effects of the world-wide crisis of 1818–1819. But the Treasury had counseled moderation in demanding specie of them. According to Senator Benton, the Bank's difficulties in 1819 were due to "stockjobbing and overtrading." This, like many of his analyses had some truth in it, but was on the whole over-simple.

Condy Raguet, one of the more intelligent contemporary observers of the 1818–1819 crisis, analyzed the situation as follows:

> That cause is to be found chiefly in the abuses of the banking system, which abuses consist *first* in the excessive number of banks, and *secondly* in their universal bad administration.

After pointing out that there had been some deflation between 1815 and February 1817, he went on to say that the resumption of specie payments of February 21, 1817, was "nominal."

> We say *nominally*, because in point of fact, a *bona fide* resumption did not take place, as is evident from the well known circumstance, that for a long time after that period, *American* as well as foreign *coins* would command on the spot a price in city bank notes above their nominal value. Depreciation can as well result from the forbearance of the public to demand their rights, as from the refusal of the banks to pay their engagements; and

the arrangement alluded to, was not any real resumption for cash payments, but a mere change of one species of inconvertibility for another. No sooner, however, had the directors of the national bank succeeded in the desirable object of rendering depreciated paper an equivalent of their own convertible notes, than, instead of reflecting from an acquaintance with general principles, and from the experience of the past, that the channels of circulation could contain without depreciation, but a limited amount of paper credits, and that that amount was already in these channels, they began to add to the mass already redundant, by emissions of their own notes. . .

The bank discovered almost too late, that its issues had been extended beyond the limits of safety, and that it was completely in the power of its creditors. It also foresaw that the payment of that portion of the Louisiana debt, redeemable on the 21st October 1818, which was held by foreigners, might occasion a demand for a considerable amount of coin, that the enhanced prices of China, India and other goods, *occasioned by the depreciation of the currency from the overissues of the state banks*, would lead to a demand for specie. . . These considerations impelled it to seek its own safety, and from that moment a system of reduction commenced. This reduction operating upon the state banks, which had not profited by the opportunity afforded them of contracting their loans whilst the other was extending, obliged them also to diminish their transactions, and a general curtailment ensued, which has not yet had its consummation. The severity of the second pressure commenced in the city in October 1818, and has continued without interruption for a year; . . .

Real property has been raised in nominal value, and thousands of individuals have been led into speculations, who without the facility of bank loans would never have been thus seduced. The gradual nominal rise in the price of land, has produced an artificial appearance of increasing wealth, which has led to the indulging of extravagance and luxury, and to the neglect of productive industry. Foreign importation and domestic consumption have thus been carried to an extent, far beyond what the actual resources of the country and people would justify. . .

Your committee is aware of the arguments advanced by some, that the general pacification of Europe has had an sensible effect upon the domestic relations of the United States, and that the neglect of the general government to afford adequate protection to domestic manufactures, has been instrumental in a high degree, in producing the present distresses. There can be no doubt, but that the former occurrence has sensibly diminished the prices of our agricultural produce, and as far as that has had an influence upon the affairs of individuals, it is entitled to consideration; but your committee must observe, that the fall has been accompanied by one nearly corresponding to the prices of foreign productions, and that were it not for the debts into which the community has been plunged by bank facilities, the difficulties resulting therefore would have been easily surmounted.[37]

A great crisis approaches [wrote the *Aurora* on October 19, 1818], slow in its march, but deadly and relentless as the yellow fever which desolated your cities – and like it compounded of foreign contageon acting on internal predisposition.[38]

"External contageon" would have produced a crisis in the United States in 1818–1819 under any circumstances. For the "internal predisposition" the Bank was partly to blame.

Jones, harassed by administrative problems, resentful of the Spencer Report, and suspecting Cheves of intrigue, resigned on January 21, 1819, five days after the appearance of the Spencer Report. After a brief interregnum, during which John C. Fisher was acting president, Cheves became the president.[39]

# VIII

# Safe and Sound

### *1819-1822*

Langdon Cheves[1] of Charleston joined the board of the Second Bank in January and became its president on March 6. He entered on his new duties with the support of powerful Charleston friends. When his acceptance of the office was in doubt he had been petitioned to accept by some thirteen members of the board in Philadelphia. Among these were James C. Fisher, acting president of the Bank, and Joshua Lippincott, an important Philadelphia businessman of whom we shall hear later. Alexander Brown, the outstanding banker in Baltimore and one of the wealthiest men in the United States at the time, expressed the widely held view that Cheves was "the only man in the United States at the head of it [the Bank] who will enjoy the confidence of all." [2] In Washington, the Secretary of the Treasury definitely favored Cheves.

Born in South Carolina of Scottish parents, Cheves had risen rapidly in the world through his own efforts. As a boy he was apprenticed to a shipping merchant, but Cheves had larger ambitions than to be a shipping clerk. He managed to secure an education, studied law, and at the age of twenty-one was admitted to the bar of Charleston. He was appointed Attorney General of the state and later served three terms in the state legislature. In 1810, he was elected to Congress where he made the acquaintance of such men as Lowndes, Clay, and Calhoun with whom he coöperated to promote the cause of military preparedness. He became chairman of the House Ways and Means Committee in 1811, and succeeded Henry Clay as Speaker of the House of Representatives on January 19, 1814. In 1815, Cheves declined reelection to Congress and left Washington with the intention of practicing law in his native state. About this time he was offered the Secretaryship of the Treasury, but declined in order to return to South Carolina. When he assumed the presidency of the

Bank in 1819 he was a justice of the court of law and appeals of his native state. Immediately after accepting the presidency, he was offered a place on the Supreme Bench of the United States, but having set his hand to the ungrateful task of rescuing the Bank, he declined what must have been a most tempting judicial role. Another neophite joined the board of directors at the same time. His name was Nicholas Biddle.

Unfortunately, Cheves lacked banking experience.[3] This deficiency was probably more than made up for by his other qualifications: administrative ability, familiarity with the condition of the government finances, experience in dealing with officialdom in Washington, and a good general intelligence. He would need all of these qualities in his new situation. Cheves knew that his task would not be easy, but he was far from aware of all the difficulties.[4]

At the time when Cheves took over he could not find "anyone in or out of the bank, who entertained a sanguine belief of its being able to sustain its payments much longer." [5] Secretary Crawford thought it unlikely that the Bank could continue payments through the year "with all the exertions which it is in its power to make." [6] On April 21, the specie at the Philadelphia office amounted to only $126,745.28.[7] This was the situation despite the curtailment of discounts and the demands on other banks for specie that had been going on for nine months.

The calls for cash were immediate and pressing. It owed to other banks in Philadelphia $79,125.99. It owed the federal government half a million dollars for the second installment of the bonus for the charter. The Treasury balance with the Bank was low and was being heavily drawn upon. The federal funds were widely scattered, but they were needed in Philadelphia. The Bank was still in debt to Baring Brothers and Company and Thomas Wilson of London for the specie purchased two years earlier. The maturity date on this loan was January 1819.

There was some specie in the western and southern branches. Relatively they were better off than the offices at Philadelphia, Boston, or New York. Specie shipments were coming from some of the branches but it was not certain that they would be adequate or that they would arrive soon enough to meet the needs of the Bank. The expected specie shipments from England and France now seemed doubtful, for France herself was undergoing a serious loss of specie at that time. Time was the essence of the situation.

The new president immediately took the following steps: (1) Southern and Western offices were directed not to issue their notes; (2) the Bank ceased to purchase and collect exchange on the South and West; (3) the United States was asked for "forbearance and aid"; and (4) a special meeting of the board of directors was called for April 9. The Treasury had already given its approval[8] to the sale of Bank-owned government stock if necessary for the maintenance of specie payments. This emergency measure thus became available, but actually was not used.

The board concurred in Cheves's policies. Continuation of the previously established policy of curtailment of loans was approved. The branch offices in the South and West were prohibited from issuing notes as long as the exchanges were against them. Further efforts at collection of balances due from local banks were recommended. The coöperation and forbearance of the Treasury was to be asked. Time for the transfer of funds from offices where revenues were accumulating to disbursement points was important. A request was made to allow payments on duty bonds in the same currency as that which the Bank received from the revenue officers. Lastly, the board[9] authorized an attempt to secure a loan in Europe not to exceed $2,500,000.

Curtailment undoubtedly went on and was effective in reducing the Bank's liabilities, even if it did not augment its specie. As so often happens under such circumstances, there was much discussion of the severity of the course taken. Undoubtedly the press exaggerated matters. Between December 1818 and October 1, 1819, when the curtailments were the most severe, the over-all curtailments on loans of personal security amounted to 21 per cent. The most extreme curtailments occurred at the Louisville branch where they were almost 50 per cent. In Cincinnati, where one might have expected drastic curtailments, they amounted to only 20 per cent. In both Boston and Savannah discounts on personal security actually increased in this interval!

The policy of curtailment was very unpopular, particularly in the West, and the onus of this policy fell on the Bank's new president. Cheves's critics would have been astounded to know that Secretary of the Treasury Crawford had specifically indicated just such a direction in policy in a letter written in April 1819 to the Bank's new president. "The axe must be applied to the root of the evil[10] . . . ," wrote Crawford. He then suggested a reduction of the Bank's liabilities to a point where the Bank would

have 100 per cent reserves. Cheves did not go as far as the Secretary of the Treasury advised, but he got all the blame for "severity" and "hostility."

Even before Cheves took command, the Bank had established the policy of reducing loans secured by Bank stock at the rate of 5 per cent every sixty days. This course was continued until July 1819 when it encountered resistance. At Baltimore, where loans on Bank stock had been extensively made, the fear had been expressed that the application of the 5 per cent reduction rule would merely lead to a reduction of such loans and a corresponding increase in loans on personal security.[11] The reduction of loans on bank stock, while substantial during the first year of Cheves's administration, was actually less drastic than the reduction in the last nine months of Jones's presidency. In general, through the worst of the 1819 crisis and until 1821, loans on personal security were reduced more rapidly than loans on collateral.

Cheves inherited a policy of making the notes of the branches redeemable in specie only at the branches where issued. Bank officers argued that this policy was necessary: otherwise note issues would be confined to an amount so small that the specie at any office would be sufficient to redeem the entire issue. To this Cheves added a restriction on the issue of notes when the exchanges were against a given branch. The first of these policies afforded only moderate relief to the Bank. Branch notes were still receivable everywhere in payments to the government and the Bank was required to accept them when deposited by the Treasury and the collectors of the public revenue. Hence, branch notes continued to be acceptable in payments between West and East and in the latter quarter they could always be used in payment to the government.[12]

The statistical record of performance on note issues is not conclusive, but it suggests that compliance was spotty. Throughout the critical period of 1819, the Savannah office, for example, seems to have had large issues outstanding. Their steady migration northward was noted by the New York office. The decrease in the aggregate net circulation for the Bank and branches between April and July 1819 was around 25 per cent. This was indeed drastic. It was probably necessary and unavoidable. It was quite certainly spotty in its incidence.

Collection of balances due from state banks was designed to

strengthen the Bank in the emergency days of April and May 1819. Such a course of action was enunciated in the resolution of April 9. The public press contained stories of the ruthless demands of the Bank on the state institutions for specie. The banks of Cincinnati had suspended specie payments even before this date, giving as their alibi the "hostile" behavior of the Cincinnati branch.

The statistics of the net debt of the state banks to the Bank do not bear out this idea. Never again, so long as the Bank operated under a federal charter, were the balances due to the Bank from state banks allowed to be so large over so long a period. This statistical result may have been produced by the balances due from institutions no longer paying their debts in specie. Cheves's own position was that the Bank, under his administration, had never been unreasonable. The policy was never to press "debtors rigorously where they were willing to give the best security in their power." Especially was this true for debts due in the western states.[13] The carrying out of this policy may have been delayed by the personnel at the various branches. The New Orleans branch was said to have been negligent about collecting balances due from state banks because the cashier of the branch had large interests in nearby state banks.[14] In general, Cheves's policy of asking the state banks to pay specie was reasonable enough if the Bank was to maintain specie payments.

The coöperation of the Treasury was of the utmost importance at this juncture.[15] At a later date Cheves stated that the forbearance of the Treasury saved the Bank. In March 1819, he considered a plan to import specie from Vera Cruz under an arrangement made by John Forsyth with the Spanish government. Secretary Crawford agreed that vessels of the United States Navy, soon to sail for the West Indies, should be available to transport this specie back to the United States.[16] The plan was later abandoned because of difficulties connected with getting silver out of Mexico, not because of the unwillingness of the government to coöperate.

The coöperation of the Treasury took other forms. In March 1819, the Secretary informed Cheves that the redemption of the Louisiana debt would amount in this year to only about $3,000,-000, with total foreign payments less than $2,000,000. He agreed to do all that he could to keep the redemption of the debt in foreign hands to a minimum.[17] Hereafter, foreign payments

for the War and Navy Departments would be arranged through the Bank. This would, said Crawford, meet in part the plea of the Bank for more adequate information about the payments to be made on government account.

On one point, however, the Treasury Department did not yield. Having made branch notes redeemable only at the point of issue, Cheves tried to get the Treasury to accept them only at these points. The Treasury replied that this policy was incompatible with any reasonable interpretation of Section 14 of the charter, and also quite at variance with the intent of the original proponents of the Bank. The expectation had been that the Bank would "furnish a currency which could be every where received and paid away by the government." [18] On grounds of legality and of political expediency, Crawford refused to yield.

A clearer understanding between the Bank and the Treasury was reached concerning the transfer of funds from points of collection to points of disbursement.[19] The Bank asked that it be given due notice of impending disbursements and time to effect the transfer. This was a reasonable request and the Treasury was disposed to comply.

This improvement in administrative technique, while helpful to the Bank, was less important than Cheves thought. For one thing, the Bank needed no notice from the Treasury regarding two most important kinds of payments, namely, the interest on the public debt and pension payments. It had always possessed the necessary information for preparation for these payments. Furthermore, the internal transfer problem was soon to become less important than it had been in 1818 because of the decline in the sale of public lands. Not until the middle 1830's did large government balances accumulate in the western and southern branches.

A favorable Supreme Court decision in the spring of 1819 was a great aid to the survival of the Bank at this critical juncture. The argument in the celebrated case of *McCulloch* vs. *Maryland* began on February 22 and closed on March 3. On the sixth, Chief Justice Marshall handed down a famous decision. This made certain that the Bank would not be taxable in Maryland or in any of the other states which had passed similar hostile tax legislation. This decision which was handed down with record-breaking promptitude was of immense help in restoring confidence in the Bank.

The foreign loan authorization was helpful. The Bank's indebtedness to foreign bankers had increased over $800,000 between December 1818 and January 1819. Its supply of foreign exchange was declining. A loan [20] from Barings and Hope and Company for $2,000,000 at 5 per cent was arranged in 1819, to mature on July 1, 1821. The wisdom of securing this loan was apparent. Specie reserves were low throughout 1819. Further, the demands on this reserve were unpredictable and potentially large. The European mercantile debt of the previous year had probably not been entirely paid and at any time the Bank was liable to be asked for specie with which to make foreign payments. Most important of all, there was another end-of-the-year installment on the Louisiana stock to anticipate. With this foreign loan the Bank was immeasurably strengthened. When the foreign holders of the Louisiana stock were paid in October of 1819, they were paid from the balances thus secured. The widespread criticism of the loan was quite misplaced.

By May 1819, the period of acute danger for the Bank was over, and the home office in Philadelphia had ceased to curtail its loans. In a period of seventy days, said Cheves, the Bank was

> lifted . . . from the extreme prostration which has been described, to a state of safety and even some degree of power, enabled it to cease its curtailments, except at points where it had an excess of capital, to defy all attacks upon it, and to sustain other institutions which wanted aid and which were ascertained to be solvent; above all, to establish the soundness of the currency . . . [and] to give to every office as much capital as it could advantageously employ.[21]

Loans were reduced to the new low level by the middle of the year, and the price of the stock of the Bank reached bottom in June 1819. Specie reserves increased to more than $3,000,000 in August. The premium in Spanish silver dollars was lower than it had been for a year in the open market at Philadelphia.[22] Clearly by the middle of 1819, the Bank was safe. On October 16, Jonathan Smith, cashier of the Bank, announced that the Bank would receive and pay on demand, notes of $5 and upwards "without reference to the place where they may, by their terms, be made payable." [23] This was a definite sign of strength.

Did Cheves, in saving the Bank, ruin the country? This is clearly a gross oversimplification. There were business troubles in the United States, and for merchants and bankers they were serious. But they were not primarily caused by Cheves's policies.

The world was passing through one of its periods of "readjustment" and American business could hardly expect to escape unscathed. Hildreth was correct in his view that the fall in commodity prices was the "real source of poverty and pecuniary distress." [24]

Within the year, from December 1818, the price index number of American produced exportable products fell from 200 to 127. The effect of this on the mercantile community was catastrophic. "To give you a description of the public feeling in this place . . . wd be impossible," wrote the distinguished Brown firm of Baltimore. "The question is who is not failed." [25] Said Gilbert Robertson, the British consul at Philadelphia: "The mercantile distress universally prevailing in America is beyond description." [26] Robertson attributed this to the tendency of Americans to speculate in commodities "upon advices received from time to time from Foreign countries."

To say that the country was ruined is a rhetorical exaggeration. A country, with most of its employed people on farms and a market which will take the produce of these farms, is hard to ruin. The fact that the prices were not attractive did not mean ruin. The press, then, as now, was unduly impressed by the plight of the cities. Journalists were extraordinarily sensitive to the misfortunes of that new development: manufactures. Commercial and business enterprises sensitive to price changes were injured. Some "mechanics" were unemployed. But the country was not ruined. Presently the distress was a thing of the past.

By April 1820, the premium on Spanish dollars had disappeared, business failures were no longer frequent, and markets were dull. Said Hezekiah Niles, "Cities and individuals, who have purchased least of foreign goods, are generally best off. The prudent merchant or shop-keeper will do no more than keep up his assortment — rather risk a rise in price than overstock himself." [27]

When the period of emergency was over, Cheves undertook a number of administrative reforms. Suits were brought against the defaulting borrowers Smith, Buchanan, Williams, and McCulloch at Baltimore,[28] whose indebtedness amounted to about $1,400,000. The accounting systems at the branches were surveyed and improved. In general, a good deal of effort was expended in improving the administrative efficiency of the branches. The office of branch president had in some instances been a sinecure. To alter this, Cheves indicated that "the president [should be]

detached from every other pursuit than that of his office to which alone, he is to look for support."[29] Unfortunately for the realization of this idea it was impossible to secure men as branch presidents who were both qualified and at the same time willing to give their entire energies for the small salaries which the Bank paid. Cheves felt that only with presidents at the branches who regarded the position as their principal employment could the Bank be reasonably certain that the branch would be run in the general interest rather than for the benefit of the branch president and his friends.

Cheves's rigorous methods of administration brought the Bank into conflict with the state banks of Georgia. The Savannah branch attempted to reduce the balances owing to it from nearby state banks and to force them to redeem their notes in specie. In December 1821, the Georgia legislature came to the rescue of the state banks by means of a statute which provided that the notes of state institutions were not redeemable in specie unless it could be proved that they had *not* been collected by the Bank of the United States with presentation for redemption in view.[30] While this statute was ultimately declared unconstitutional and was repealed on December 20, 1824, it seriously interfered with the operation of the Savannah branch for a period of time. During Cheves's administration, the note issues of the Savannah branch became almost nonexistent. Between the middle of 1821 and the close of 1822, discounts were reduced from over $1,000,000 to about $600,000. This shrinkage of discounts on personal security occurred at a time when such discounts were generally on the increase. The items "due to" and "due from" state banks practically disappeared. The branch possessed almost no state bank notes. Deposits of individuals were reduced to about $16,000.

The struggle with the Georgia banks illustrates once again the difficulty which the Philadelphia institution encountered in supplying a "sound" currency to a public that wanted sound money but did not want the consequences of policies necessary to make it sound. By 1825 the struggle with Georgia was over and Biddle took steps to increase the resources available at the Savannah branch.

The position of the Bank of the United States in dealing with Georgia and the Georgia banks was immensely strengthened by the favorable decisions of the Supreme Court in the cases of *Osborn* vs. *The Bank of the United States* (9 Wheat. 739) and

*The Bank of the United States* vs. *The Planters' Bank of Georgia* (9 Wheat. 904). In these verdicts, handed down in March 1824, state legislation hostile to the Bank was declared unconstitutional. In the Planters' Bank case the argument that the charter of the Bank of the United States did not permit it to sue in the Federal Courts was denied. To the National Bank this meant not only a victory over hostile Georgia legislation but also the assurance that in future litigation its fate would not be decided by local juries in the state courts. Both on grounds of expediency as well as on grounds of principle, it was opposed to financial states' rights and financial anarchy. The Planters' Bank decision and other Supreme Court decisions not only strengthened the hand of the central government, but also strengthened the central bank. By these verdicts, neither the Bank nor the Supreme Court won political popularity.

Toward the close of 1819 the directors at Philadelphia considered the control of branch notes once more, to remedy what Chéves called "the perpetual balance in favor of the east." With this in view, the branches were forbidden to issue notes of the parent bank or of the branches unless the office in question was a "creditor on this account" or when it was "manifestly for the interest of the bank to do so." Branches were requested to cease issuing notes (above five dollars) when it appeared that they were to be used as substitutes for exchange. Pittsburgh, Cincinnati, Chillicothe, Lexington, and Louisville were especially cautioned against issuing notes.[31] The branches were admonished to conduct their business so that they could meet demands for the redemption of notes, payments to depositors, debts to other branches, and an occasional draft by the Bank.

Cheves was interested in a plan for controlling "the currency of the whole country and restraining . . . the loans and issues of State Banks." [32] One device, which he called the "assignment of capitals," was instituted as a part of this system of control. It will be recalled that when Cheves became president, the indebtedness of the branches to one another was a matter of concern to the officers in Philadelphia. As late as October 1819, the branches owed the corporation over $32,000,000. Baltimore was outstanding as a debtor to the other offices, but Charleston, Savannah, Cincinnati, and New Orleans all surpassed New York in their indebtedness to the Bank. In justice to the North and East this had to be changed.

At the close of 1819 the allocation of capital was made to most of the branches: New York and Charleston received equal allocations of $1,500,000 and other branches received smaller amounts. No allocations were made to Baltimore, Lexington, Louisville, Chillicothe, Cincinnati, and Pittsburgh at this time. Perhaps Cheves thought that no decision should be made on the appropriate amounts for these branches until their affairs were in better order: perhaps he thought that more direct control measures were required for these troublesome branches.

During the next three years the branches to which capital had been assigned reduced their indebtedness to the Bank to a figure that came within their capital allotment. This reduction of indebtedness to the Bank was general: most of the branches to which no capital had been assigned also reduced their obligations to the rest of the Bank. Baltimore and Cincinnati were the exceptions to this rule for reasons connected with their recent history.

Cheves may have intended to use this device to make each branch conform to the provision in paragraph 8 of Section 11 of the charter. For the Bank as a whole, the charter specified that the "total amount of debts which the said corporation shall at any time owe, whether by bond, bill, note, or other contract, over and above the debt or debt due for money deposited in the bank, shall not exceed the sum of thirty-five millions of dollars. . ." The accounts of the branches at dates following the "assignment of capital" suggest that as applied by the branches the rule was not followed with doctrinaire rigidity. Commendably it attempted to control the indebtedness of certain branches to the rest of the system on account of drafts and note issues. But history does not justify the great importance which Cheves attached to this administrative device.

By 1820, the United States was well over the financial crisis, and in 1821 New York and other states were able to market their bonds easily and at moderate rates of interest. Canal building was going on apace in New York. Pennsylvania was starting its program of internal improvements. Stocks issued by banks and insurance companies were oversubscribed many times.

In the latter part of 1822, there appeared signs of financial strain. Merchandise imports had been heavy in 1821–1822 and concurrently the United States had suffered a net specie loss of about $7,500,000. Gilbert Robertson, of Philadelphia, said that

"Considerably more than one half of the Gold and Silver which had been accumulated in the United States has been shipt off to England, France, India, China & So America."[33] The Bank itself exported over $2,500,000 of specie to England between June 1821 and February 1822. Its specie reserves amounted to more than $7,500,000 in January 1821 and two years later they were about half of this amount. Between June 1821 and June 1822 cash in Massachusetts banks fell from over $3,000,000 to less than $1,000,000. In May, the banks of New York, Philadelphia, and Baltimore stopped discounting and "it appeared as if some frightful mischief was rapidly approaching."[34] In Boston, interest rates as high as 12 per cent were quoted for "street" loans.[35] Fortunately for the Bank and for the country at large, the money panic was a short-lived affair.

The last year of Cheves's presidency was thus marked by a minor financial crisis, the causes of which seem to have been primarily American in origin. Throughout this period commerce and finance flourished in Great Britain. Foreigners increased their purchases of American products by about $7,000,000. Negotiation between the American and British governments moved toward and temporarily succeeded in opening the door for increased trade between the United States and the British West Indies. In London the stock market boomed, a process less significant to Americans than later booms because the market traded chiefly in European government issues at this time. Ease in the London money market was furthered by the Bank of England's lowering of its discount rate from 5 to 4 per cent on June 20. Clearly the state of business and finance on the other side of the Atlantic favored a continuation of American prosperity.

The loss of specie arising from the great increase in merchandise imports confronted the banks of New York, Philadelphia, and Baltimore with the alternative of either stopping payments or pressing hard on their debtors, as the *National Intelligencer* remarked. The state-incorporated banks chose the latter course. The Bank of the United States, on the other hand, adopted a slightly different policy. It expanded its total discounts and bills by about $2,000,000 in the course of 1822. This increased financial accommodation was particularly noticeable in the crisis period of May and June. Its portfolio of domestic bills of exchange was increased from about $1,500,000 to over $3,000,000 during the first six months of the year. The domestic bills account was much larger

than heretofore. This was the course followed by the Bank in spite of its depleted specie reserves which in January 1821 had amounted to more than $7,600,000 and by June 1822 had fallen to about $3,333,000. The Bank's domestic policy was thus calculated to allay panic during the acute phases of the crisis.

In its international relations, on the other hand, the Bank did nothing to ease the situation. On the contrary it maintained its stock of foreign bills and its foreign balances until August. At that time it paid off about $700,000 of the foreign loan which the Bank had secured at the close of 1819. This, it will be recalled, was done while the London stock market was booming, when it was giving a cordial reception to foreign government borrowings, and after the Bank of England had reduced its discount rate. Speculative traders like Vincent Nolte of New Orleans thought that they did not know "what they are about" at the Bank but this opinion was definitely unjust. The Bank was allowing the export of specie and the high rates of exchange to exercise what they would have called their natural corrective effect. This was one way to stop that "progress of extravagance and waste" and that importation of hundred-dollar bonnets which so worried Hezekiah Niles.

How may the policies of the Bank over the four-year period of Cheves's administration be most accurately characterized? Was this, as Catterall suggests, a period of "lethargy and conservatism"?

The Bank's extension of credit actually increased between the middle of 1819 and the end of 1822. By means of a moderate increase in its portfolio of domestic bills of exchange and a $6,000,000 increase in its holdings of the United States funded debt the Bank more than offset its reduction in the noncommercial stock loans. To repeat more specifically, the Bank's total discounts (personal and collateral loans) were reduced almost $3,000,000 but most of this reduction resulted from reduced loans on Bank stock and funded debt. Loans which were characteristically for commercial purposes (personal loans and domestic bills of exchange) actually increased about $1,000,000 between these two dates. The Bank's total loans, domestic bills discounted, and ownership of the United States funded debt increased from over $38,000,000 to over $43,000,000. Because of its $6,000,000 purchase of United States bonds and because of the active participation in the bill market, the Bank's aggregate credit expanded about 13 per cent.

It will be recalled that during this period the prices of Ameri-

can products declined about 25 per cent and the prices of imports about 8 per cent. Under such circumstances the Bank's moderate expansion of credit, especially its expansion of commercial credits, does not suggest that the business community was unduly oppressed. This point of view is reinforced by the $25,000,000 increase in merchandise imports that took place in 1822. The Bank's loan policy was not so conservative as to have seriously restricted the development of American business.

The Bank made two large long-term loans to the United States. It was apparent that the Treasury balance would be insufficient to meet the payments on the Louisiana stock due on October 20, 1820. After consultation with Cheves, the Treasury formally asked the Bank to take $2,000,000 of United States 6's of 1820.[36] This enabled the Treasury to pay off some short-term loans as well as the bonds due at this time. The next year, the Bank purchased $4,000,000 United States 5's. This issue was, in part, a refunding of the Mississippi stock maturing this year.

The Bank was criticized for investing in government issues rather than expanding its commercial loans, yet this investment meant an expansion of bank credit. In both cases, the purchase of government bonds resulted in a great reduction of the net balances due from state banks. The state banks were thus in a position to expand commercial loans without fear of falling dangerously in debt to the Bank. If the state banks did not do so, it was probably due to the lack of demand for business loans at this period. The investment in the public debt was undoubtedly conservative. The Bank was glad to have these gilt-edged earning assets. This was neither a policy of lethargy nor did it, as Catterall suggests, deprive commerce of essential credit and thereby limit the commercial activities of the country.

The Bank's loans seemed small by contrast with the days of the preceding boom. Loans on personal security at the New York branch were less at the end of 1820 than they had been two years earlier by more than 25 per cent. Loans by state banks were smaller too. The United States Bank, like all banks at this time, was affected by the reduced demand for loans. Isaac Lawrence of the New York branch wrote in September 1820 that the branch there could not "expect to do much until some change in business" occurred. He added the interesting item that the banks were not making loans because of increased loans made by individuals and insurance companies. These latter had "large sums unemployed,

and rather than they should remain unproductive, they are willing to loan them at from 12 to 15 months; at 6 or even 5 per cent."[37] Lawrence's explanation was correct: the commonly expressed idea that Cheves was intentionally and consistently restrictive in his loan policy was incorrect.[38]

The Bank increased its holdings of specie until they reached a maximum of almost $8,000,000 in April 1821. From that time specie holdings were reduced. This policy of increasing the cash reserves in 1820 and 1821 was undoubtedly conservative, and in the light of the recent history of the Bank, this was highly desirable. Moreover, though the Bank accumulated specie, it did not hoard it for long.

We have already discussed the Bank's policy relative to balances due from state banks. The attitude which Cheves took on this matter was the eminently reasonable one of not pressing for settlement in cases where security was adequate. The policy of redeeming notes of state banks was another matter. During this period, the Bank reduced its holdings of state bank notes to the smallest amount in its history. Some of this was undoubtedly done by systematic presentation for redemption. The problem raised by the state bank notes was taken up with the Treasury, which advised, as we noted earlier, that the Bank pay out these notes as fast as possible. The Bank may have done this to a limited extent but, generally speaking, presentation for redemption in specie was the preferred policy.

Notes of the Bank in circulation were reduced in number after the crisis period. But, as prosperity returned in 1821, the note issue of the Bank once more returned to the level of January 1819. Notes in circulation were expanding and contracting with the needs of trade. This was not lethargic.[39]

Critics said the branches in the South and West "issued no notes; made few or no discounts."[40] According to the statistical record, the regional discrimination does not appear as great as the Bank's critics implied. The statistics of note issue when Cheves took over were ambiguous, but by January 1, 1822 the branches of the South and West issued about 75 per cent of the Bank's notes. This does not seem unreasonably discriminatory; nor does the pattern of loans on personal security made during the first years of Cheves's presidency suggest regional hostility. When Cheves became president, the Bank made about 79 per cent of its loans on personal security in the South and West; after three years only

76 per cent were made there. At Washington, Fayetteville, Charleston, Savannah, Louisville, and Cincinnati the loan reduction was less proportionally than for the Bank as a whole. Actually, Cheves's policies led to a regional disposition of the Bank resources more in conformity with the requirements of business and government than had been the case heretofore. The branch at Boston grew rapidly, a development which was reasonable because of the importance of the business interests served and because the branch there had been prevented from doing much business prior to 1819.

Cheves was criticized for suspending dividends beginning in July 1819. Yet he could hardly have done otherwise in view of the Bank's recent losses which turned out to be around $3,500,000. In 1819, cash on hand was still insufficient to meet the cash requirements of a normal dividend at that time. No dividends were declared from July 1819 through January 1821. In July 1821 a semiannual dividend of 1½ per cent was paid. In the ensuing years the dividend rate was gradually increased. By July 1828 it reached the figure of 7 per cent per annum.[41]

Cheves was fortunate in the fact that during his presidency the foreign debt redemption by the United States was less than it had been in 1818. In 1818, total payments had been $4,355,882; in 1819 they were $1,776,176.

Cheves and the Bank were fortunate, too, in the fact that by 1821 the British money market had eased. The British bought heavily of the bonds of Continental governments. In 1821, an English journal had this to say: "Trade and Commerce not admitting at present of satisfactory returns of profit, investments in English and Foreign Securities have become prevalent with such as possess unemployed capital." This same journal pointed out that American 6 per cent stock was so highly regarded that its yield was the lowest of any of the foreign government issues in the London market. Second to the American issues in reputability, were the Prussian 5's. The author concludes his analysis by stating that "this Government Security is in high estimation." [42]

But Cheves's course was not popular.[43] Some stockholders disapproved of his cautious dividend policy. Even the Secretary of the United States wrote to him urging that the Bank pay a dividend. Some of the Bank's clients would have welcomed a more lax credit policy. The state banks did not like his policy of keeping a tight rein on their note issues.

Early in 1822, he decided that it was time to retire and announced his decision about the middle of the year. At the time of the election of directors at the close of 1821 there was an active campaign "in several of the principal cities to obtain proxies with a view to produce[ing] a change in the directors unfavorable to . . . [Cheves] election." [44] At the Treasury, Secretary Crawford stood stanchly by him and Cheves was reëlected. Writing about his retirement at a later date, he gave the impression that he was glad to relinquish the office. He apparently felt ill at ease in Philadelphia where he resented being treated as stranger. He had never wanted to be a banker anyway. He had taken the presidency out of a sense of duty and was glad to be rid of it when the emergency was over. Perhaps at the time of his resignation, and most certainly at a later date, he regarded the Bank as unconstitutional, "inexpedient, unnecessary and dangerous." [45] After lengthy negotiations, Nicholas Biddle was chosen as his successor.[46]

# IX

# The Golden Age

*1823-1829*

Nicholas Biddle was elected President of the Bank on January 6, 1823, and took office at once. There was little to indicate at the time that he would become one of the great controversial figures in the history of American banking. Having been a member of the board of directors from 1819 to 1822, he was familiar with the Bank's problems and methods of administration and he was the favorite candidate of the merchants and state banks of the Atlantic coast for the Bank's presidency.[1] Biddle appeared to be the ideal man for this position which called for political adroitness and banking sagacity both at home and in international finance.

His views on banking were conservative at the time he took office. On February 3, he wrote to Robert Lenox in New York, advising the New York branch "not to suffer itself to be encumbered with state bank balances, nor with more debts from Southern Offices than necessarily grow out of the receipt of their paper." And he added:

> The view which I have of the true policy of the Bank is this. We have had enough and more than enough of banking in the interior. We have been crippled and almost destroyed by it. It is time to concentrate our business — to bank where there is some use and some profit in it, and therefore (while anxious to do business in the interior the moment there is a clear prospect of doing it usefully and safely) to make at present the larger commercial cities the principal scene of our operations.[2]

Early in his career as a banker Biddle stressed the importance of short-term commercial loans.

> It is the essence of all good banking that the loans should be for short periods so as to render the funds at once more manageable, as well as more productive. For this purpose, bills having 60, 90, or 120 days to run are sufficiently long for the purposes of real business, and for that necessary superintendance of the fluctuation in the affairs of our debtors. . . There are it is true occasions when the demand for money having subsided strong temptations are offered to discount long paper, and at lower rates than six per cent. But it is safer on the whole to resist that temptation.[3]

As for the Bank's relations to state banks, he spoke with approval of the practice of the Philadelphia office of insisting on punctual settlements with these institutions.

> Every morning the clerks from this Bank and the State banks meet and interchange the notes. . . The balances are struck accordingly – but no bank ever calculates on its balance remaining for any length of time, and whenever it grows a little too large, no bank ever hesitates to send for ten or fifteen or twenty thousand dollars from its debtor. . . In truth, it is only when these balances accumulate and remain for any time that they become apprehensive to both parties and excite mutual ill will.[4]

Payment of balances was often demanded in specie.[5] In the South and West the branches often received bills on the North and East in settlement.

Does the record show that the Bank followed these policies? It would not have been surprising if they had not been carried out. Formidable obstacles stood in the way of control of the branches. Each one had a degree of autonomy. In each district there were powerful groups that were prepared to influence the directors and officers to act in behalf of supposed local interests.

Biddle's policies did become effective. Loans on personal security increased in Boston and New York by about 80 per cent. In the Bank as a whole, there was a 30 per cent increase. But at the Lexington and Chillicothe offices such loans were cut in half. At Louisville they remained stationary. In Ohio, loans on personal security had caused the Bank to foreclose on real estate. Biddle wanted to avoid further trouble in this area if he could.

The Bank adroitly made additional funds available in the Middle West by increasing its advances on domestic bills of exchange. Generally there was a fourfold increase in this type of asset. The increase was very large in the area of Ohio, Kentucky, and Tennessee. An additional concession to the demand for banking accommodation in this area was made in the form of a new branch at Nashville in 1827. This branch grew rapidly; in 1829 its domestic bills of exchange alone amounted to about $900,000. In general the Bank made a successful attempt to substitute for the less liquid loan in personal security a type of loan which was self-liquidating. This was especially true in the Ohio, Kentucky, Tennessee area.

What of the issues of the Bank's notes in the "interior"? While the Bank as a whole about doubled its notes outstanding between 1823 and 1829, the notes issued at Lexington, Kentucky were reduced by 25 per cent and at Louisville by almost 50 per cent.

This caused resentment. What critics overlooked was the fact that the branch at New Orleans became in these years a great note-issuing center for the Bank. Its note issues trebled. In 1829 its notes outstanding were twice those of the main office in Philadelphia. New Orleans was the marketing center for the Mississippi Valley; because of this the notes of the branch there were widely acceptable, and were often preferred to coin.

The New Orleans branch was also a very important repository of the Bank's specie reserves. At times this branch held twice as much specie as the Philadelphia office. Much of the silver that came to the United States from Mexico was lodged in New Orleans. Thus the branch which issued the most notes held the most specie. From time to time, Biddle had given thought to the proper allocation of the Bank's specie to meet its obligations. The Bank of England, he said, had a simple problem compared with his because of the compactness of the English territory. The practice which developed — perhaps by design, or perhaps by accident — was to concentrate both note issues and specie reserves in New Orleans.

The year 1825 saw a reorganization of the Bank's affairs at Cincinnati. A special agent was sent to survey the situation, with the result that a new branch was established to do a commercial banking business and the old branch became a real estate liquidation agency. Several millions of real property were in the custody of the agency there and ten years later, although liquidation was still going on, Biddle was of the opinion that the Bank would take only a small loss and perhaps none at all. The Bank declined to sell these foreclosed properties until it could get as much as it had given for them. It used its influence to foster developments which would increase land values. The fact that the Bank was a large, permanent, and resourceful holder of real property made it the target of much criticism in Congress.

Biddle's professed attitude on the collection of debts due from other banks was correct and severe. There are no indications of undue severity in this respect. The redemption of state bank notes was, if anything, less rigorously pursued than it had been under Cheves. The general balances of indebtedness between the Bank and the state banks showed no definite upward trend. Perhaps this indicates promptitude in collection of balances due from state banks.

The country continued to experience dull business and tight money for some months after Biddle took office. Specie reserves of the Bank were about $4,500,000 – not alarmingly low, but considerably less than they had been two years before. By the middle of the year, things took a turn for the better; cotton prices rose, trade and commerce revived, easy money in England helped to make money easy in the United States, and large British loans to the newly opened South American republics led to an increased and profitable commerce with them. By November, nevertheless, Biddle wrote to Secretary Crawford that "the capital of the country [was] contracted within a narrower circle of employment." [6]

The troublesome problem of the highly variable Treasury balance at the Bank turned up again in 1823. The Secretary estimated that in spite of the debt retirements of September 1822 the Treasury balance was likely to remain in the neighborhood of $5,000,000. In fact, it increased almost every month throughout the year: in January 1823 it stood at 2.7 millions, in January 1824 at 8.3 millions. Because of this mounting balance at the Bank the state banks complained that demands on them forced them to reduce their discount line. Crawford suggested that the Bank expand credit to offset this.[7] But nothing came of this suggestion; in fact the Bank's total loans actually decreased a small amount in the last half of 1823. Two years later Biddle congratulated himself on having resisted this appeal from the Treasury to expand Bank credit.

By the beginning of 1825, specie at the Bank had increased from $4,400,000 to $6,700,000. Silver imports from Mexico (and South America) increased from $1,800,000 in 1822–1823 to $2,500,000 from Mexico alone in 1824–1825. Because there were many persons in Mexico "desirous of placing their property out of reach of revolutions, and who by thus occasioning a more than ordinary demand for bills on foreign countries," Biddle thought, "the Bank might operate advantageously by selling its bills of exchange there." His plan was to have the Bank's agent in Mexico sell bills either on the Bank or on its London correspondent in return for "specie . . . delivered on board of a vessel of war of the United States." In short, Biddle, with the coöperation of the United States government, was willing to smooth the way for a flight of capital from Mexico. With specie from this source, he thought it would be possible to "secure the ascendency of the bank." [8] This operation was not carried out, but nevertheless

specie came from Mexico in increasing amounts and likewise the reserves of the Bank increased.

By November 1823, the Bank was a net creditor in its foreign accounts. It paid off the long-standing debt to foreign banks in May 1824. In the winter months of 1824–1825, it fell into debt to European bankers but by May 1825 was out of debt once more. In February 1825, Biddle advised the offices in the South to purchase "undoubted bills," an abundance of which he anticipated because of the high price of cotton and because the governments of Mexico and Colombia were selling exchange.[9]

The Bank bought $5,000,000 United States 4½'s in 1824 and another issue of equal size in 1825. The former loan was issued to provide funds for the spoliation claims assumed by the United States at the time of the purchase of Florida: the latter was for the purpose of refunding the United States 6's of 1812 which matured in 1825. In this period as in the years 1820 and 1821, the Treasury was glad to avail itself of the Bank as a ready market for its bonds. During the first year of Biddle's administration the Bank was not troubled by the problems created by the redemption of federal debt owned by Europeans.

The British money market remained favorable to foreign securities and some state bonds were sold there. South American issues were favorites, but some interest was shown in North American issues. The (London) *Course of Exchange*, for January 4, 1825, lists the bonds of New York, Virginia, Pennsylvania, Louisiana, New York City, and New Orleans as being currently traded. In November 1823, negotiations for the sale of stock had been begun by Virginia.[10] Louisiana issued $4,000,000 5's to provide the capital for the Bank of Louisiana.[11] Much of this issue was disposed of in New York but some was sold in London. Toward the end of 1824, Ohio began negotiations with Baring Brothers and Company for the sale of bonds to finance the construction of a canal from Lake Erie to the Ohio River.[12]

The Bank entered the panic year of 1825 with ample specie reserves. It was out of debt to foreign bankers and the supply of bills coming to market was large. Earnings of Americans from the sale of cotton at boom prices were sizable. It was true that imports had begun to mount, but earnings from sale of exports had made a comparable rise. However, the Bank did lose about $3,000,000 specie in 1825. The United States sent about $4,500,000 to China alone. (Exports to Asia had been large for several pre-

ceding years.)[13] Some specie was sent to various European countries, but these sums were insignificant as compared with the silver sent to China. Spanish silver dollars became in great demand and were quoted at a premium in April. By May, Calcutta shippers were drawing on the Bank for American half dollars.[14]

Other signs of impending financial trouble were present. In April 1825, Biddle wrote to Robinson in the New York Office: "The great rise in prices and the demand for money which may grow out of it will render it necessary to be very circumspect, so as to avoid the risk of doing [*sic*] weak paper, or lending dangerous facilities to speculation." [15] Soon thereafter he wrote, "if we become much in debt to the State institutions, we may be compelled in self defense to abridge suddenly our usual facilities. It would perhaps be more prudent until the demand for specie has somewhat subsided not to extend much at present." [16] In May he advised: "Our first duty is to take care of the Bank, and at the present moment of wild and exaggerated speculation if we suffer ourselves to be borne by the current, if we do not on the contrary, like sober and prudent men, resist alike the entreaties or the clamors of individuals, we shall betray our trust." [17]

In the United States there occurred an interbank struggle for cash at this time. Drafts on the government's balances lowered the Treasury balance at the Bank from $7,800,000 in September to about $2,000,000 in November. The Bank was thus placed in serious danger of falling into debt to the state banks at this critical period. In the course of 1825–1826, the Bank sold in all, about three millions of its recently acquired United States 4½'s, the heaviest sales coming in October 1825. By these operations the Bank was just able to remain a creditor of the state banks. The sales were very heavy in New York and Boston. Probably such sales drew some cash from the hoards. It is noteworthy that these 4½ per cent stocks sold at par in the midst of a financial panic. The sale of these stocks made them available for remittance to London where they were undoubtedly salable even under the crisis conditions that prevailed there.

To avoid an interbank struggle for cash, Biddle advocated lending 4½'s to the banks "who are pressed, and when they are called upon for specie, they might agree to pay interest, on giving stock as security." "The true state," said Biddle, "is . . . this. No specie is wanted for exportation,[18] but the drain is from one bank to another, and there is not so much a want of money, as of con-

fidence. Any step therefore which would restore confidence would considerably relieve the pressure." [19]

To protect the Philadelphia banks from demands for specie, Biddle took the initiative regarding a sum of $400,000 due by important New York financiers to the Bank of Louisiana. Hearing that a New York financier intended to draw specie and send it to New Orleans, he went to New York and induced the New Yorker to take a Bank of United States draft for the remittance. In later years Biddle thought this step forestalled a dangerous demand on the Philadelphia banks [20] for cash.

> I was perfectly satisfied [wrote Biddle] that there was a tremendous squall coming, that there was a scarcity ahead which unless immediately quieted, would grow into a panic and get beyond our control . . . the Bank immediately, and in the face of the public alarm, increased its discounts, and by this measure averted the greatest disasters. I have always thought . . . that the Bank of England, missed the delicate and hazardous moment when by assuming confidence in itself, it might have inspired confidence in others. . .[21]

Bills discounted on personal security, as well as the Bank's holdings of domestic bills of exchange, did expand in 1825. But the total amount of bank credit did not change much. The sale of securities offset the Bank's advances on bills and notes. A sharp drop occurred in the total of Bank credit outstanding in November 1825, just when the business community would have been most grateful for an expansive policy. Biddle's description of his course of action erred therefore in exaggerating the helpfulness of the Bank in this emergency. His ideas were correct enough, but the activities of the Bank, viewed in their entirety, did not live up to Biddle's version of this well-conceived policy.[22]

The effects of the 1825–1826 crisis on the United States were relatively slight. A few country banks failed and there were a few commercial failures. Also, some losses were sustained because of a return of protested bills from England. Commodity prices declined. In the last half of the year there was a premium of 1 to 1½ per cent of Spanish dollars. Money rates were high and market prices of the more speculative stocks declined. In the last half of 1825, cotton fell from 25 to 15 cents a pound, with unhappy consequences for some speculators. Nevertheless, the effects upon the country as a whole were not serious. There was comparatively little unemployment and few business failures occurred. At the

height of the panic, the British consul Robertson wrote to the foreign office as follows:

> There is, notwithstanding the distress in the mercantile community, a rage for internal improvements and canals and roads occupy much the attention of the capitalists of this country. The progress making is surprising. Manufactures too are continued to a great extent especially in the New England states where they flourish more than in the South. Coarse cotton goods have been sent to the new republics of South America from this country and realized good profits.[23]

The enviable financial record of the United States government prior to 1825 undoubtedly contributed to America's ability to resist the contagion of panic. The steady redemption of the national debt had elevated these securities to the status of gilt-edged investments. As we have seen, New York and a few other states had sold their bonds in Europe prior to 1825. The repute of both federal and state security issues was sufficiently high so that there seems not to have been a return of these securities for sale in the United States in this emergency.

The American financial position was exceptionally strong because of the profitable commodity trade of the preceding months. The cotton crop was the largest produced to date and the price per pound was high. In the fiscal year 1824–1825, the value of the cotton exports alone amounted to about 36.8 millions of dollars in contrast with 21.9 millions in the preceding year. The net excess in the trade and service items for this period amounted to over $10,000,000. With the advantage of having sold cotton in boom markets in England, the United States entered the crisis period with little to fear from foreign finance.

A second circumstance favored the United States at this time: the payments to foreigners for their holdings of the federal debt were comparatively small. This was in marked contrast with the situation that had prevailed in the earlier 1818–1819 crisis. In 1825, interest and principal payments to Europeans amounted to 2.4 millions of dollars in contrast with 3 millions in the preceding year and 2.6 millions in the following year.

Some thought had to be given to internal aspects of this debt redemption. In New York, where redemptions were heavy, Biddle advised the branch not to increase its personal and business loans.[24] After the October payments, the Treasury balance was reduced to about half a million dollars — a small balance for the Treasury.

The United States was fortunately situated internally as well as externally in the fall of 1825. Sales of public lands had not been large. Treasury receipts at the land offices did not disturb the interstate balance of payments. Banks had been conservatively run in the preceding years and were strong. The "squall," as Biddle called it, was a serious matter in London: in the United States it was a minor disturbance. At a later date, Henry Burgess commented:

> The commercial convulsion of 1825 led to more remarkable changes . . . than any event in the present century. Its character was truly subversive and revolutionary, and though it was not the original and principal cause, it was the immediate agent of producing more signal alterations in the state of society than any occurrence since the breaking out of the French revolution. Its tendency has been to raise up, enrich, and strengthen, the United States of America, Prussia, — and in less degree, Russia, France, and the Netherlands, — and to impoverish and weaken England and all her principal colonies, with the exception of those of Canada and Australasia.[25]

As South American countries defaulted on their bond issues, the repute of United States securities improved. Americans, it appeared, were blessed with the virtues of honesty and industry and were the fortunate possessors of a sound government and an admirable legal system. Englishmen, after their unhappy experience with Latin Americans, felt that it was safer to export their capital to the United States.

The next three and a half years (July 1826 to December 1829) were comparatively untroubled both for the country and the Bank. Prices of both imported and exported commodities were low and comparatively firm. International specie movements were moderate in amount. Land sales moved at a stable rate. Beginning about 1827, the exportation of specie to the Orient ceased to be important. Mexico sent increasing quantities of silver to the United States by way of New Orleans.

Such financial disturbances as occurred in the 1826–1829 period arose from the heavy merchandise imports immediately before the tariff act of 1828 went into effect, the large retirements of the public debt beginning in 1826, and lastly the growing attention to internal improvements.

The tariff act of 1828 was passed on May 19 and became effective on September 1. Traders hastened to stock up on foreign goods. During this interval, foreign exchange rates were high,

there was a slight premium on Spanish dollars, and specie was shipped to Europe. The Bank of the United States did a large business in foreign exchange. From the end of 1827 and through 1828 it was heavily in debt to foreign bankers. In March, the Bank had drawn in excess of the customary overdraft of £100,000 allowed by the arrangements with Barings. Among other things, Biddle remitted 5388 shares of Bank stock "forfeited by debtors" in part payment of this debt.[26]

At this time the offices of the Bank were advised to keep within their income and restrict their loans. As Biddle viewed the situation, the New York banks had been discounting too freely thereby providing "temptation to continue imports." The consequence was that

> importers ship specie, or they buy bills from those who do — their goods arrive — are sent immediately to auction. The banks discount the auction notes, the proceeds of which are drawn out in specie and shipped, thus furnishing the means of continuing indefinitely the circle of operations. As long as they do so — they themselves furnish the means of making the very demands of which they complain. The whole evil therefore lies in an overbanking which occasions an overtrading, and the whole remedy lies in preventing this overbanking.

Against the "ruinous consequences" of these policies

> it is the business of the Bank of the U. States to guard. It has accordingly placed itself in an attitude of security and strength, so as to interpose whenever it may be necessary to protect the community. The precise point of that interposition is the interesting question. While the state banks go on in their present career, it is hardly fair to throw on the stockholders of the Bank of the U.S. the burden of protecting them against the effects of their own improvidence — of relieving them at the first moment of difficulty by incurring a heavy debt in Europe bearing an interest of five per cent. It seems more just that the Bank of the U.S. should reserve its strength — and let the state banks feel the pressure which their thoughtlessness occasions. Such is the present position of this Bank. It keeps within its limits — discounting cautiously — and when demands for specie come, turns them over to the state banks.[27]

Did the Bank fail to give reasonable aid to the business community in 1828? Was it true that, having made excessive loans and discounts in the South and West, the Bank was unable to help business because such loans were frozen?[28]

In 1828 the Bank increased its total discounts and bills from 33.7 millions to 39.2 millions. Most of this increase was in the form of loans on personal security. This change did not occur in accordance with any very definite regional pattern. The interoffice

debt increased by about two millions in this year and concurrently the branches of the South and West fell into debt to the rest of the Bank by the same amount. In short, the Bank made additional loans during this emergency: it did not restrain the branches of the South and West from falling into debt to the other branches. There are no clear indications of its having restricted its loans either regionally or in the aggregate because of mistakes in a previous period.

Throughout this year the rate of foreign exchange stood at the specie export point. The Bank augmented the supply of exchange by going into debt to its foreign correspondents. Its specie reserves remained practically constant in the neighborhood of $6,000,000 throughout the year while from the country generally there was a small specie export.

Notes in circulation increased by about 1.3 millions in 1828. Most of these additional issues were made in the South and West. New Orleans by this time was the issuer of more than twice as many notes as any other office including the home office at Philadelphia. This does not suggest unwillingness to come to the aid of the business community in this emergency nor does it suggest timidity engendered by awareness of faulty loans at an earlier period.

Beginning in February 1828, and continuing into the early months of 1830, the Bank resumed the sale of its own United States 4½'s and 5's. In July 1829, these sales reached the record-breaking sum of two and a quarter millions. In the aggregate they amounted to about seven millions. Concentrated as these sales were in New York and Boston, they kept the Bank out of debt to banks in those cities. In New York, at least, these transactions led to the charge that the Bank was using "oppressive" tactics. Biddle's view was that the New York banks had been at fault.[29] The Bank, he felt, was quite justified in protecting itself from the demands of the New York institutions which had been improvident and perhaps extravagant in their loan policy in the preceding months.

Interest in internal improvements was growing. Ohio and Pennsylvania as well as New York were building canals. The experiment in state-financed banking in Louisiana was going forward. The Baltimore and Ohio Railroad and the Chesapeake and Ohio Canal were provided with funds by Maryland. Pennsylvania made arrangements through the Bank of Pennsylvania for Baring

Brothers and Company to sell $2,000,000 of state issues for internal improvements.[30] In Louisiana, the interest in internal improvements was so great that "even the most attentive find it difficult to obtain all the desired information concerning the railroads and canals which are contemplated or proposed." [31] The Consolidated Association of Planters of Louisiana arranged with Barings to market Louisiana stock which that banking institution wished to place in London.[32] The total of state bonds issued for internal improvements amounted to over $13,500,000. Probably this balanced the return flow of United States funded debt during these years and partly accounted for the small net specie movements into and out of the country.

Beginning about 1826, there was an increasing emphasis on foreign exchange operations. "Our foreign exchange business is every day developing," [33] wrote Biddle to P. P. F. Degrand, a Boston financial journalist, in July 1826. In the preceding six months the Bank made profits of about $60,000 from its foreign exchange business. Long-dated East India bills were issued, drawn on Baring Brothers and Company. Not only were they profitable, but equally important, they served as substitutes for the specie which had hitherto gone to the Orient in such large amounts. The recently established branch at Mobile was significant for the Bank's international activities. It would, said Biddle, "give fresh impetus and increased accommodation to business . . . enable merchants to make larger advances to the planter . . . avoid by the aid of credit the hazard of an immediate sale and sacrifice of his crop — and on its exportation to anticipate at once its proceeds." [34] Because of this growing interest in its foreign exchange business, the Bank invited Hottinguer and Company to be its Paris correspondents in 1826. Significantly, this firm had long been identified with the cotton market as well as with banking. Because of this as well as because of the guarantees of its conservatism and respectability, noted elsewhere, this firm became associated with the Bank. By September 1827, the Bank had sold 7,000,000 francs.

Except for the year 1828, the Bank was a (net) creditor in its foreign accounts in these years. Perceiving as he did the variable demand for foreign bills of exchange, Biddle recognized the necessity for a certain amount of speculative investment in foreign balances. In 1828 he remarked: "the period of accumulation being long — and the demand for exchange, when it comes, being

at once large and sudden . . . The course of our exchange operations naturally leads to a gradual accumulation of funds in Europe to be used when the business of the country occasions during the winter."[35] In 1828, the Bank drew on its foreign accumulations and availed itself of its foreign credits. Despite the heavy importation of merchandise, neither the Bank nor the United States lost significant amounts of specie. In some measure, the Bank stabilized the financial situation at this time.

As noted earlier (Chapter III), the year 1827 saw the inauguration of the notorious and highly controversial branch drafts. Having survived the depression of 1819 and ridden out the financial crisis of 1825–1826, with earnings steadily on the increase, the Bank's officers might reasonably have felt the confidence in their judgment necessary to carry out this innovation. Congress had once again ignored the Bank's request for a change in the law requiring that the Bank's notes be signed by the president and cashier and therefore Biddle devised this supplement to its note issue and domestic exchange business. By these means the Bank might hope to make additional profits, also.

In the years between 1826 and 1829 the Bank attained its highest prestige. Its stock was regarded as a gilt-edged investment, it was highly respected by foreign bankers, it was definitely becoming more popular with the business community in the United States, and at the Treasury it occupied a preferred position. As early as 1826, Secretary Rush condemned the depository state banks for "want of punctuality . . . in regard to their engagements," and concluded by saying that "it seems as if it would be ultimately necessary to dispense with the agency of those institutions."[36] Because of this well-founded view, he urged the Bank to establish branches at strategic points for the use of the Treasury. Collectors of the public revenue (at land offices especially) were advised to accept local currency only if the issuing bank was located in the state or territory where land officers were located.[37] In contrast to this, it was well known that the Bank's notes were universally receivable by the government. The state banks had grounds for alarm at the mounting prestige of the Bank.

Andrew Jackson of Tennessee became President of the United States on March 4, 1829, and John Quincy Adams, friend of the Bank, and of Biddle, retired. Almost at once the administration press began to attack the Bank.

# X

# A Losing Fight with Andrew Jackson

*1830-1836*

The conflict between the Administration and the Bank went through three phases. The first, from December 1829 to July 1832, was one of attempted appeasement by the Bank. Well into the spring of 1832 the Bank's president hoped for a renewal of its charter and a continuation of amicable relations with the government. The utterances of political leaders in Washington became increasingly hostile but government officials in their executive capacities and the officers of the Bank continued to deal with one another in a businesslike manner. At one time the Treasury even contemplated a new function for the Bank: the making of disbursements abroad for the diplomatic corps and for distressed seamen.[1] The second period lasted from July 1832 to July 1834. During this period, the Treasury removed its deposits from the Bank and the Bank pursued a defensive policy — moderns might even call it a scorched-earth policy. The third and last period was one of retreat in which the Bank ended by acquiring a charter from the state of Pennsylvania. During this period from the middle of 1834 until March 4, 1836 the Bank sowed the seeds of future trouble.

One of the first intimations of what the Bank might expect from the Jackson administration took the form of an attempt to secure the removal of Jeremiah Mason from the presidency of the branch at Portsmouth.[2] As a member of the Senate, Mason had favored the incorporation of such an institution. Early in 1821 he had been offered a directorship in the Portsmouth branch. Together with Webster, he had been an attorney for Dartmouth College early in the litigation over its charter. When it became clear that the Portsmouth branch needed more efficient management, Mason, after some urging from Webster and others, agreed to accept the position. This appointment occurred in the summer of 1828.

Mason, in accordance with instructions from Philadelphia, at once reversed the previous policy of making accommodation loans and frequent loan renewals. He reduced accommodation loans by 20 per cent on second maturity and asked borrowers to put up good collateral. Preference was given to business paper. Mason was successful in improving the portfolio of the branch, but he aroused hostility [3] in the rural areas which it served.

In the presidential campaign of 1828, Mason supported Adams. This political affiliation did him no good after the November elections. In Washington there were two New Hampshire men who were unfriendly to him: Levi Woodbury, then in the Senate, and Isaac Hill, Second Comptroller of the Treasury (March 21, 1829 to May 24, 1830). These men tried to secure his removal.

On August 3, the Secretary of War informed Mason that he desired to change the pension agency from the Portsmouth branch to a Concord bank. Mason refused to give up the books, papers, and deposits. The question was carefully reviewed at Philadelphia. On the advice of John Sergeant and Horace Binney, the Bank supported Mason. Biddle then went to Portsmouth personally to investigate the allegations of "harshness." [4] He concluded that the charges were a part of a "very small intrigue to supplant an honest and excellent officer." [5] Biddle's judgment that Mason was in the right was accompanied by prompt and loyal support of his colleague. Hoping to mollify local hostility, Biddle authorized the Portsmouth branch to take the small notes of state banks on deposit. "I do not yet despair," wrote Biddle, "of seeing you quite a favorite among those, who have been lately so fierce in denouncing you." [6] Mason remained president at Portsmouth until 1832 when he removed to Boston to resume his law practice. Biddle's optimism was not confirmed by experience, and Mason, in the end, seemed glad to leave banking and return to his former profession.

Later in 1829, Secretary of the Treasury Ingham indicated that he disapproved of the methods of selecting and of removing officers of the Bank. Biddle regarded this as another effort to include the Bank within the spoils system. To his friend Dickins in Washington he wrote that he and the board of directors had informed the Secretary that "he had no right to give advice — and that if he had, the advice was bad." [7] To another friend he wrote: "among the directors, it is considered not simply a duty,

but a point of honor, not to yield to party spirit."[8] A major direct attack soon followed when Jackson, in his first annual message to Congress on December 8, 1829, questioned both the Bank's constitutionality and expediency and alleged that it had failed to establish a sound and uniform currency. This was the first important episode in what contemporaries called the War on the Bank.

The Bank received support and approval in the report made by McDuffie to the House of Representatives on that portion of Jackson's message that dealt with the Bank.[9] Constitutionality was upheld; the Bank's expediency was obvious; the currency furnished by the Bank was reported to be more uniform than specie. Jackson's suggestion that a new national bank be established "upon the credit of the Government" received unfavorable appraisal. It would open the door to both paper money excesses and to political corruption. But the anti-Bank faction in Washington was not deterred by so frail a thing as a House Report. Again and again the Bank was investigated and reported on by congressional committees of varying degrees of competence and impartiality. Up to this time it was unquestionably the outstanding recipient of attention from investigating groups from Capitol Hill. From these researches the administration drew up a list of indictments which became more and more extensive: the Bank was unconstitutional. The Bank was corrupting the political integrity of the country. The Bank was run for private interests and dominated by Nicholas Biddle. And the Bank highhandedly thwarted government policy. Furthermore, the Bank was said to have deliberately caused "business derangements" as a "part of a criminal plot . . . to force a continuance of chartered privileges from an unwilling Government and people." The Bank put into effect "a preconcerted plan to disorganize and break up . . . the system of credits under which the country was then and had been for a long time carried on."[10] Of especial interest are the charges emanating from Washington that the Bank deliberately used an easy-money policy up to the middle of 1832 to buy political good will, and in the latter part of 1833 and early 1834 unnecessarily restricted its loans to "starve the country into submission."

Biddle and his friends claimed that the Bank policy was primarily governed by banking considerations, and in general blamed the government for the financial difficulties of these years. Both parties to this fight believed themselves motivated by high

moral principles and entirely in the right. Both parties emerged from the battle worse off than before. The government found itself minus a well-run central bank. It was now dependent on the state banks, and later was forced to experiment with the defective idea of an independent treasury. The Second Bank found itself with a very bad charter from the Commonwealth of Pennsylvania and a mass of not too liquid assets.

This six-year period was one of general and increasing prosperity. Domestic commodity prices took a sharp rise in the latter half of 1833 but in the early part of 1834 they fell somewhat. However, from the middle of 1834 until the end of the first quarter of 1837, domestic commodity prices were high relative to the prices of imports. The "terms of international trade" were definitely favorable to the United States from the middle of 1833 to 1837. Merchandise imports almost trebled during this period while exports increased by almost 75 per cent. The earnings of ocean carriers expanded. Immigration increased. Most important of all, this was the great period of capital importation from Europe. Canals, railways, internal improvements, and new manufacturing enterprises expanded as never before.

The new administration lost no time in informing the Bank of its intention to retire the public debt "as fast as may safely be done." [11] Receipts from import duties were large. In at least one year, the receipts from the sale of public lands were even larger. By 1835, therefore, the federal debt in both domestic and foreign hands was practically extinguished. On the other hand, the bond issues of the states increased rapidly, especially after 1833. At some point of time in this period, these issues not only topped the federal issues in amount but also passed into foreign hands in such quantities that they more than offset the return of federal issues to the United States for redemption.

Though the period was one of rising prosperity, it was not without minor recessions. The year 1830 opened inauspiciously. The cotton trade, however, revived in the English market. Stocks of cotton were low there and on the Continent. Moreover, the foreign flour market was very favorable because British crops were deficient. Woolen and cotton manufactures were active in the United States. Throughout 1830 there were occasional complaints that times were "dull." But as the *Centinel* of Boston remarked:

> Such complaints are incidental to periods of profound peace; not because people do not enjoy more actual prosperity, but simply because people turn their attention to productive industry and commerce; competition is increased, and individual profits are smaller, because shared by a much greater number. . . Such is peculiarly the case with the people of this country.[12]

The year 1831 was one of obvious prosperity. "It is admitted on all hands," the *New York Spectator* said, "that the general state of the country was never more prosperous. All the great interests of the country have flourished during the past year, beyond example."[13] The cotton crop of 1831 was a large one and the value of domestically produced exports increased slightly. In the early part of the year the foreign market for grains and flour continued to be profitable. Canal and railroad construction continued vigorously. In 1832 the *Albany Argus* reported that twenty-four new railroads had been chartered in New York and that the public was so eager to invest in railways that when the books of the Canajoharie and Catskill Railroad were opened, there was a rush to subscribe for the shares.[14] In New England new textile mills were being built. A fourth factory was under construction in Lowell, Massachusetts, which involved an investment of $1,200,000. "A great deal of . . . capital is passing into manufacturing establishments," said Niles, "not because they are so profitable as some in the south believe, but to give employment to money; it being now a great object to obtain six per cent on safe investments."[15] In some cities, real estate values began to rise.[16]

A somewhat less favorable forecast was suggested by the fact that commodity imports were increasing. These importations had been purchased with the aid of foreign credits which hitherto had been easy to secure.[17] Would this continue or would there be a demand for settlement? It looked as if the latter might be the case, for the Bank of England was

> reported to be calling in money lent on mortgage; restricting its discounts at branch banks and curtailing loans on Stock, Exchequer bills and refusing to pay more than half sovereigns in gold to an applicant. The stop put to the advance in the prices of almost all commodities, and the decline that has already begun in some, may, in great measure, be traced to this cause. The obstacle in the way of negotiating a loan on advantageous terms for France was also connected with it, and the general want of confidence and animation in the money market, in London, wholly attributable to it.[18]

The disturbed aspect of political affairs on the Continent of Europe and the agitations incident to the reform bill of 1832 in England created feelings of uncertainty which Biddle alleged were partly responsible for the high rates of foreign exchange and the return flow of specie to England. He, and probably others, anticipated that British goods might soon be dumped on the American market. Even more alarming was the announcement on October 1831 that the United States would redeem the United States 4½'s (of 1824) and the 5's (of 1825) almost at once.

With reason, therefore, the early part of 1832 was a period of financial strain. Good notes were sold at 9 per cent discount in New York in January 1832.[19] Some shipments of specie from the United States took place in the latter part of 1831 and early in 1832. In 1831 the Bank alone exported about one and a third millions of specie, a substantial portion of which went to France.[20]

What was the Bank doing in this two-and-a-half-year period which ended in the middle of 1832? Was it playing politics with its loan policy, as some alleged? [21] Was it being managed in accordance with banking principles?

The total loans and discounts increased from about $40,000,000 to $70,000,000 in a two-and-a-half-year period. About half of this increase occurred in the first year and a half and the remainder in the last twelve months. Specie reserves followed a different course: in the first period they increased from 7 to 12 millions and in the second they were once more reduced to about 7 millions.

The year 1830 was a dull year for business and the Bank and branches had surplus reserves. Restive at their low volume of business and small earnings, the Boston branch petitioned the Philadelphia office for permission to lower the rate of discount. This was granted. A similar course was followed at Philadelphia and the discount rate on collateral loans was lowered to 5 per cent in July 1830 and to 4½ per cent in September of that year.

Throughout 1831 it was not so much total loans that increased as loans on personal security. This increase in the portfolio of business paper was welcome to the Bank because it was an earning asset to replace the United States bonds redeemed in 1830 and 1831. Biddle also justified this loan expansion of 1830–1831 by saying that it was an increase growing out of the actual business of the country.

In its foreign exchange transactions the Bank, generally speak-

ing, moved with the tide of business. From May 1829 through May 1831 it was a net importer of specie. The Bank's foreign balances were large and early in 1831 it disposed of large quantities of bills at low rates.[22] About the middle of the year the tide turned and the outward movement of specie from the United States in general and the Bank in particular was large. Rates of exchange were high in the latter part of 1831 and the Bank went heavily into debt to its foreign correspondents to meet the demand. Early in 1832 this policy was changed. The officers were aware that the wave of merchandise importations was very large and should be curbed. The short-term mercantile debt was large and rising. It was estimated to be in the neighborhood of $8,000,000 or $9,000,000. The Bank's officers also foresaw the probable consequences of the debt redemption program of 1832. Early in 1832, it sold exchange only to "habitual customers of the Bank, who wanted small amounts." [23] By the middle of the year, the Bank's foreign debt was eliminated.

The Bank's activities in international finance between 1830 and the middle of 1832 were such as might have occurred if the institution had had no special political problem. Does the record confirm the hypothesis that loan policy was dominated by a desire to buy popularity and secure a recharter of the Bank in spite of Jackson's opposition and over his veto? Did the Bank use easy money to secure popularity at the time when the fight in Congress was in its most crucial stage? Did the Bank make a sectional appeal? It will be recalled that Jackson was concurrently having a bitter controversy with South Carolina in 1832 over the nullification issue. Did the Bank court popularity by making a sectional appeal in the quarters where Jackson was already unpopular?

On August 20, 1830 Biddle wrote to Joseph Gales: "Dean Swift said long ago — money is neither Whig nor Tory — and the Bank has sense enough to be neither for Adams nor Jackson but for the country and sound currency." [24] In September he was informed by Henry Clay that it was unlikely that recharter could be secured over Jackson's veto.[25] To Degrand, he wrote in December: "It is I think now obvious that we shall have to make direct appeal to the reason of the country, from the passions of its party leaders. Be it so — I have too much confidence in the sober sense of my countrymen to doubt for a moment the result of the

struggle."[26] On January 1 of the next year he wrote to Gallatin that the "President has now sounded the tocsin of alarm," and it was clear at that time that he intended to use all the means at his disposal to preserve the Bank.

On the advice of Webster, Clay, and other important political friends of the Bank, the recharter issue was raised in definite form in 1832. The welfare of both the country and the Bank called for an early decision. Favorable newspaper publicity was arranged for, pamphlets presenting the Bank in a favorable light were distributed, loans to congressmen were slightly increased, Congress was flooded with memorials favoring continued life for the Bank. The hundreds of pages devoted to these testify to the ability of the Bank's officers and friends to organize for the purpose of exerting pressure on Congress. January 1832 saw the beginning of the fight on the floor of the Senate and of the House of Representatives. In February, Biddle seemed hopeful of success.[27] On March 13, the recharter bill came formally before the Senate. The bill was vetoed on July 10: this veto was no surprise. The majorities for recharter had been sufficiently narrow so that the veto was decisive for the time being.[28] Biddle was convinced that the defeat of the Bank was the work of one individual who had set himself up against the will of the majority. At once he began to query whether the Bank should interfere in the forthcoming election. Jackson's message he characterized as "a manifesto of anarchy such as Marat or Robespierre might have issued to the mob of the faubourg St Antoine: and my hope is that it will contribute to relieve the country of the domination of these miserable people."[29]

Let us see how this rapidly changing political outlook affected the policies of the Bank. In 1831, bills discounted on personal security increased by about 60 per cent. The largest increase at an important office was at Philadelphia. At Charleston, on the other hand, the increase was about the same as the average for the Bank as a whole. At New Orleans, it was less than average. While it was true that at some of the other southern branches the increase in discounts on personal security was a little more than the average for the Bank as a whole, one cannot see any very clear evidence of regional favoritism in operation.

The first half of 1832 was an anxious period for the Bank.[30] At the directors' meeting of April 27, the board agreed that branches should contract their business and remit funds to points

where they were most needed for redemption of the public debt.[31] The loan reductions that took place in the first half of 1832 took the form of reduced loans on personal security. In this credit contraction there was a notable difference between the various offices. At Philadelphia the "active" discount portfolio was reduced 30 per cent, a figure equaled by the reduction at Mobile. At Charleston, the shrinkage was about the same as that for the Bank as a whole. On the other hand, the branches at Natchez and at Lexington increased their "active debt."

In March 1832 there appeared on the Bank's balance sheet the item "Bills discounted on other security." The accounts suggest that customers who had hitherto been borrowing on personal security were asked at this time to put up about two millions of collateral for their loans. This does not suggest that the Bank was guided solely by motives of political expediency, for this request for collateral could hardly have been popular. Nor did the Bank do the obviously popular thing in its loan policy between January and May 1832. It decreased its loans on personal security and increased its holdings of domestic bills of exchange. At a time when it needed friends it decreased its credits to individuals and increased them in the least personalized form possible to it. Such a policy is not compatible with playing politics but it was comparable with mobilizing its resources at points where the Bank knew it would need them and with keeping them in the most liquid interest-bearing form available to it.

Motives are difficult to understand under the most favorable circumstances and certainly a statistical examination after the lapse of more than a century is insufficient to establish motivations. It looks, however, as if the Bank found both banking and political convenience pointing to the same loan policy in 1831 and therefore expanded its loans. In 1832 it was clear that a choice had to be made, and the Bank followed the course dictated by banking rather than politics.

At this turning point in the history of the Bank, its standing was extraordinarily high. In February 1832 T. W. Ward, Barings' agent in the United States, believed that the Bank should be rechartered. "The Bank is in the main well conducted . . . ," wrote Ward, "its parts are now in a good working way & well adjusted to each other." [32] He topped off his approval by saying that the president was "an able man." Such words from Ward were

indeed high praise. Ward understood banking and he was not a man to pay undeserved compliments.

Samuel Jaudon was promoted to the cashiership at Philadelphia in the middle of 1832. Long an employee of the Bank, he had been for some years cashier of the branch at New Orleans and was familiar with cotton and the foreign and domestic exchange transactions that arose from the trade in cotton. Even at this date he was interested in the international sale of stocks and bonds. His career suggests that he was exceptionally skillful in business negotiations. At the time of his appointment Biddle regarded him "as the fittest man in the country for the situation." [33]

Jackson was triumphantly reëlected to the presidency in November 1832. The Bank had been an important issue in the campaign and Jackson interpreted his reëlection as an overwhelming public endorsement of his stand on the Bank question. Within about a year he almost completely divorced the government from the Bank. At the same time the general business prosperity that characterized 1832 changed to a state of mild depression in the early part of 1834. Let us review developments at the Bank and the policy decisions of the government in their relation to the transition from prosperity to depression.

For about four months after the veto of July 10, the Bank played a cautious game, and well it might. Not only was its future very uncertain but it was in the midst of the heaviest federal debt retirement operations that either the government or the Bank had seen. The schedule of retirements for 1832 was as follows: $5,908,809.22 on January 1; $1,739,524.01 on April 1; $8,634,988.37 on October 1; and $6,544,902.42 on the first day of the next year. The first two payments were mainly of the United States 4½'s; the last two of the 3's originally issued at the time of Hamilton's funding operations. Biddle estimated that one-half or more of the 3's were in the hands of foreign owners.

In the last half of 1832 the Bank reduced its total bills and discounts by about $7,000,000. Most of this reduction was in the form of reduced holdings of domestic bills of exchange. Biddle gave thought to the always delicate question of the Bank's relation to the state banks. The proper course, he said, was to

> forbear from pressing [the state banks] . . . in order to deserve and insure a reciprocal forebearance when our relative situations change . . . and our whole effort should be to keep the state banks at their ease, so that if we

are compelled to curtail they may supply our place — and in the meantime devote our surplus to the purchase of exchange and the redemption of the 3 per cents.[34]

The board ordered the branches in the South and West not to purchase any domestic bills of exchange except where unavoidable. By September the period of strain was over. Ample resources to make payments having been accumulated at various points to make domestic payments on the 3's, Biddle recommended "relaxation." Early in October the offices at Lexington, Louisville, St. Louis, Cincinnati, and Pittsburgh were given instructions "to check freely upon the bank as heretofore, and to extend their purchases of domestic bills, based upon real business transactions, and not having more than four months to run to maturity."[35] With slight modifications of its business routine, the Bank managed its affairs so that the payments to the domestic holders of the 3's could be easily handled.

Biddle's anxieties centered chiefly on the international aspects of this debt retirement. Early in 1832 the Bank had been in debt to its foreign correspondents for about $2,225,000. Baring Brothers and Company had given the Bank an extra credit of £200,000 but even so the Bank was overdrawn. To make matters worse, the rate of exchange was high: up to the specie export point in the spring months.

Between October 1831 and February 1832 the Bank had purchased about $1,800,000 of Sterling bills from Thomas Biddle and Company of Philadelphia. This firm had recently negotiated the sale of a large issue of Pennsylvania 5's in London through the firm of Gowan and Marx.[36] The company had bills to sell and the Bank was glad to buy them. Some of this Sterling was useful for the retirement of the 4½'s: some of it probably helped the Bank get out of debt to its foreign bankers. Some of the bills were 125-day bills. By July 1832 the Bank was completely out of debt overseas.

The retirement of the 3's had been originally planned for July. On Biddle's suggestion this date was postponed until October 1, and the Bank agreed to pay interest on the postponed portion for the quarter.[37] To meet the heavy maturities of October 1, negotiations were commenced with New York bankers for some kind of relief from this demand. These early explorations came to nothing and therefore, in July, General Cadwalader was sent

to London to negotiate with Baring Brothers and Company for the best kind of arrangement to lighten the burden on the Bank connected with redemption of the 3's. Both the plans and the instructions for these negotiations seem to have been loosely formulated. An agreement was reached on August 22, according to which Baring Brothers and Company agreed to invite English holders of the 3's to retain them for an additional year, the Bank in that interval paying the interest. Alternatively it was arranged that the English firm should buy the 3's at a price not to exceed 91 and charge these outlays to the Bank. Baring Brothers and Company agreed to advance money for this purpose up to $5,000,000 with the right to retain the bonds as collateral security. It was further provided that if Baring Brothers' purchases did not exhaust the five millions, the Bank was privileged to draw on them for the difference.[38]

This arrangement evoked a storm of protest in Washington. When Biddle and Secretary McLane had discussed matters in July, the Secretary had suggested that the Bank delay presentation of any certificates of which it had control if the funds of the Treasury appeared to be insufficient at that time.[39] Nevertheless, these postponement suggestions did not provide the needed alibi when Congress discovered that the Bank had taken matters into its own hands and seemed to run counter to the intention of the President and Congress.

The agreement was disavowed almost immediately — on October 15. In the meantime, Baring Brothers and Company had purchased 3's estimated at between one and a half and two and a quarter million dollars. Bondholders were advised to present them for redemption at once. The Bank offered 3 per cent interest to those who agreed to leave their funds with it until December 1833.

These negotiations turned out to have been unnecessary because of a fortunate turn of events in the London money market. In 1832 the English long-term money market eased and American state and corporate issues were favorably received.[40] In later years, this date was regarded as the real beginning of that wave of both domestic and foreign investment that culminated in 1836. Of particular importance to the Bank at this juncture was the issue of $7,000,000 of Louisiana bonds to the Union Bank of that state. Through the mediation of Samuel Jaudon, then cashier of the branch at New Orleans, and other officers of

the Bank, this issue was put on the market through Baring Brothers and Company and Prime, Ward and King of New York. Over $5,000,000 of these bonds were sold in England. At the time of the revision of the arrangements which General Cadwalader had made, Biddle suggested that the English firm might find it convenient to receive payment for their outlay on the 3's in the form of New Orleans funds. This is essentially what happened.[41] The Bank was, of course, in a strong position to accumulate funds in New Orleans useful in payments to the Union Bank. In February 1833 it bought a draft for £160,000 from T. W. Ward and at the same time began to make a series of loans to Prime, Ward and King which were paid off in August 1833 by a draft for £221,881.7.8. Transactions of this sort were responsible for the fact that the rate of exchange stood well below the specie export point during the critical period of debt redemption between October 1832 and March 1833. They explain how the Bank was able to get out of debt to its foreign correspondents at the time that heavy payments were being made to foreign bondholders. They show how it was that the Bank was able to enter the even more turbulent year of 1833 with a large credit balance in Europe. The London bond market had provided the *deus ex machina.*

Another episode that embittered relations between the Treasury and the Bank was the dishonored draft on France. On October 31, 1832, the Secretary of the Treasury inquired of Biddle about the most convenient means of securing payment of the 4,856,666.66 francs due to the United States under the spoliation claims agreement of July 1, 1831.[42] Biddle advised drawing a draft on the French government and this was done on February 7, 1833. The bill was purchased by the Bank at the highest price of the day. The Bank forwarded the bill to Baring Brothers and Company with instructions to sell it in London, because the Bank had ample balances with Hottinguer and Company at that time and preferred to augment its Sterling resources. When the bill was presented, the French government refused payment on the ground that no appropriation had been made. On April 26 the Treasury was informed that the bill had been protested and then taken up by Hottinguer and Company, "for the honor of the Bank." [43] Biddle presented the customary 15 per cent claim for damages and interest on this transaction which amounted to $170,041.18. The government, on the advice of Attorney General

Butler, denied that this claim had foundation in law or equity.[44] A year later (July 1834) the Bank deducted this sum from the dividend due to the government. This matter, unimportant in itself, was the occasion of much controversy and much bad feeling. The Bank, through Webster, publicized the fact that it was merely following standard commercial practice. Jackson and his associates condemned the Bank for highhanded and extortionate demands on the government.

A really important development was the removal of the Treasury deposits from the Bank and the adoption of state banks as federal depositories. Rumor that some such move was contemplated had circulated for a long time. It became a practical certainty on July 23, 1833, when the Treasury notified Amos Kendall that the President had designated him to make the necessary inquiries preliminary to the removal of the Treasury deposits from the Bank. He was advised *not* to keep the inquiry secret lest the rumor of it cause speculation in the stock of the Bank.[45] Because of his strong disapproval[46] of this policy and his unwillingness to agree to carry it out, Secretary Duane was asked to resign. Roger B. Taney was appointed in his place and on September 26 issued instructions to the collectors of the public revenue at Philadelphia, New York, Boston, and Baltimore to cease to use the Bank as a depository on and after October 1.

By the resolution of August 13, the board of directors of the Bank declared that the amount of bills discounted should not be increased, that bills of exchange should not have more than ninety days to run, and that the five western offices purchase only short-dated domestic bills payable in the Atlantic cities. On September 24 the order previously given to the western offices was extended to Burlington, Utica, Buffalo, Pittsburgh, Natchez, and New Orleans.

The charges for the collection of bills of exchange were increased. The branches were advised to collect balances due them from distant state banks either in specie or in drafts on the Atlantic cities. On October 8 a scheduled reduction of $5,825,907 in discounts was ordered. A further reduction of $3,320,000 was ordered on January 23. This program was not completely carried out by the following July.[47] Out of a reduction of $9,145,907 ordered by the directors the total achieved fell short by something less than $2,000,000. This general loan contraction was definitely over by July 1834.

The credit contraction of 1833–1834 was extensively discussed in the press and in business and government circles. Congress authorized another of its investigations of the Bank, and the Senate Committee, of which Tyler was chairman, gave the topic a thorough investigation. Generally it was felt that the western

*TABLE 18*

*Net Change in Bills Discounted, Domestic Bills of Exchange, Deposits and Notes in Circulation of the Bank, 1833–1834*

| Month | Net Change in Bills Discounted and Domestic Bills[a] | Net Change in Public Liabilities[b] | Net Change in Private Deposits[c] | Net Change in Circulation[d] | Change in these Combined Liabilities[e] |
|---|---|---|---|---|---|
| | | | (000 omitted) | | |
| 1833 | | | | | |
| July | +$790 | +$1,089 | +$283 | −$476 | +$896 |
| Aug. | −1,445 | +1,582 | − 695 | − 487 | + 400 |
| Sept. | −2,621 | + 686 | −1,448 | + 715 | − 47 |
| Oct. | −2,884 | −1,636 | − 724 | − 610 | −2,970 |
| Nov. | −2,757 | −3,069 | − 458 | + 133 | −3,394 |
| Dec. | + 458 | − 932 | − 92 | + 557 | − 467 |
| 1834 | | | | | |
| Jan. | − 68 | −1,164 | − 20 | + 52 | −1,132 |
| Feb. | +1,325 | − 462 | + 628 | − 737 | − 571 |
| Mar. | −1,361 | + 329 | − 177 | −1,002 | − 850 |
| Apr. | −1,050 | + 318 | − 143 | − 917 | − 742 |
| May | −1,555 | − 520 | − 155 | + 8 | − 667 |
| June | −1,177 | − 56 | − 132 | + 29 | − 159 |

Source: U. S. *Sen. Doc. 17,* 23 Cong., 2 sess., pp. 222–224.

[a] Net change in the totals of bills discounted on personal security, on bank stock, on funded debt, and domestic bills of exchange.

[b] Net change in the total of Treasury deposits, deposits of other public officers, and the fund for redemption of the public debt.

[c] Net change in private deposits.

[d] Net change in notes in circulation.

[e] Combined change in (b), (c), and (d).

and southern branches had been ruthless with their clients while the Bank had seen to it that the Philadelphia, Boston, New York, Baltimore, and Charleston branches were less restrictive in their credit policy.

The timing of events was such as to put the Bank in a bad light. Its credit contraction got under way in August, the Treasury did not begin to withdraw its deposits until October, and did not make large inroads on its balance until November. Antici-

patory action by the Bank was reasonable but it appeared to some observers that it had taken an aggressive attitude. The Bank's course was influenced by the fact that its situation was very uncertain. It could not really predict what the Treasury would do and there was always the possibility of a run by individual depositors. Actually, individual deposits were withdrawn to the amount of $700,000 in August and about $1,500,000 in September. Some of this may have been panic withdrawal. Treasury withdrawals amounted to about $3,000,000 in November. Unlike the large drafts made by the Treasury in earlier years to pay the public debt, these drafts were genuine transfers.

The spotty character of the Treasury's drafts on its balance was an important factor at this juncture. On some of the branches the demands were heavy and on some they were light. The Bank was fighting a defensive war and could not perfectly anticipate where the enemy would strike. In November, for example, the Treasury's aggregate balance was reduced about 48 per cent, but at the Portland and Boston branches it was reduced 80 per cent, at Baltimore 85 per cent, and at Washington 99 per cent. At the same time Treasury deposits actually increased by 42 per cent at New Orleans, 26 per cent at St. Louis, 16 per cent at Louisville, and by small amounts at some of the other minor offices. In general the large drafts on November 1833 were on the offices of the North and East. The southwestern offices got off easily.

The December withdrawals by the Treasury were exceptionally heavy on Philadelphia where they took 77 per cent of the Treasury balance. The New York branch was drawn on for about half a million dollars which was roughly half of the government's account there. In New Orleans the Treasury balance continued to increase. In Norfolk it more than doubled. Even at Washington the government increased its balance to around $14,000! The general pattern once again was light withdrawals in the Southwest, and heavy withdrawals elsewhere.

There was a fear in both New York and Philadelphia that the Bank might retaliate by making concentrated demands upon certain newly selected depository state banks. Calls for specie due by depository banks indebted to the Bank might be very embarrassing. Against this possibility certain banks, namely, Girard's Bank in Philadelphia, the Bank of the Manhattan Company, and the Bank of America in New York were fortified with large drafts on the Bank to be used in case of need.[48]

Demands on the Bank by individual depositors were spotty too. Withdrawals were heavy in Philadelphia, about 40 per cent in September, and 30 per cent in October. The New York branch encountered a wave of such demands in November. On the other hand, individual deposits were well maintained in New Orleans and elsewhere. The Bank was thus confronted with a very uneven pattern of demands by individuals. Individuals drew on the offices where Treasury drafts were most embarrassing.

The Bank's reductions in loans on personal security were done with rather surprising uniformity at the various offices. This was in marked contrast to the Treasury's lack of uniformity. The percentage of such reductions from month to month did not vary greatly in different parts of the country. The outstanding exception to this was Boston where such loans were actually increased. No special effort was made to secure large reductions at the offices in the East on which the Treasury was drawing so heavily.

The Bank's investment in domestic bills was generally but not universally reduced at this time. The exception occurred in the western and southwestern offices where the investment in domestic bills increased. The purchase of domestic bills payable in the North and East was a means of augmenting the Bank's resources at the points where the government's demands were greatest.

The Bank's loan policy at this time evoked all sorts of charges and countercharges. The Treasury said that the Bank had reduced its loans before the Treasury began to withdraw its balances. This was true. It was also reasonable. The Treasury said that the reduction of discounts was excessive. From August to December 1833, the Bank reduced its discounts and bills by nine and a quarter millions, while Treasury balances fell by only four and three-quarters. But the Bank had a sound defense in the need to be prepared for runs by individual depositors and the spotty character of the Treasury's demands. The Treasury said that the Bank was vindictive and was attempting to starve the country into submission to its will. To general imputations of motives of this sort the Bank made no reply.[49] In private, Biddle said that he intended to keep the Bank strong. He generally denied that the Bank had "oppressed" the state banks and the new depository state banks. He repeated the oft-made claim that "they almost always come to it [the Bank] for refuge." To his friend Verplanck, he wrote:

How much they have been protected you may judge from the fact that since the removal of the deposits, the city banks of Philadelphia and New York have been almost constantly in debt to the Branch at New York and the Bank of Phil[a], a sum varying from six to eight hundred thousand dollars and perhaps more. . .[50]

Unfortunately for the credibility of Biddle's statement, the statistics indicate that the Bank reduced the balances due from state banks from about $2,500,000 to zero between October 1833 and March 1834. For the New York banks the situation was made especially difficult because of the retirement of the United States 4½'s of 1824. This issue was largely held in Philadelphia. In the fourth quarter of 1833 almost a million dollars' worth of this stock was paid off and in the first half of 1834 more than a million were redeemed. Such an operation favored the Philadelphia banks and led to heavy drafts on the New York banks where Treasury funds were accumulating. On December 13, the Treasury notified the state depository banks that its funds at the Bank were about exhausted and that they should hold themselves in readiness to meet its demands.[51] At the close of 1833, therefore, the state banks found themselves in a difficult situation. Among the causes for this the policy of the Bank in keeping "strong" undoubtedly was important.[52]

The Bank accused the Treasurer of highhanded and unconstitutional behavior in withdrawing the deposits. The action was in violation of the charter for which the Bank had given the government a valuable consideration (the bonus). There was talk of bringing suit. It was whispered that the removal was done to depress the price of the stock of the Bank. Friends of the Jackson administration were rumored to have obtained advance information and made profitable bear speculations in Bank stock. And again and again the spokesmen for the Bank said that the "distress" that prevailed throughout the country in 1833–1834 was not due to the Bank but to the Treasury policy which had forced the Bank to restrict its loans in self-defense.

By February 1834 the danger to the Bank from the removal of the deposits was practically over. There were not many more ways in which the government could injure it: it had survived triumphantly to this date. Biddle's attitude seemed to be one of detachment in so far as the public interest was concerned. In February he wrote to his friend Hamilton as follows:

> What is done at Tammany or at Washington is a matter of little importance to the Bank. The Bank is no longer responsible for the currency, and the people who now have charge of it, are welcome to make their experiments. The Bank looks and means to look on with calmness and great silence — but above all — with great strength.[53]

Again, a few days later:

> What will happen in the country unless Congress interposes, is but too manifest — the whole future is full of gloom and confusion. My own course is decided — all the other banks and all the merchants may break, but the Bank of the United States shall not break. I have asked Com^e Biddle what is the least sail under which a man of war can lie to in a gale of wind, and he says a close reefed main top sail. So our squadron will all be put under close reefed main top sails and ride the gale for the next two years. As to those who have no sea room and breakers under their lee, they must rely on Providence or Amos Kendall.[54]

By July, the Bank was so strong that it was ready to reverse its policy and begin to expand.

In Boston conservative business and financial interests were becoming restive at the continued policy of loan contraction. A committee made up of such men as Nathan Appleton and Amos Lawrence suggested a reversal of policy to the Boston branch. They called attention to the Bank's unprecedented strength. Even if it were winding up its affairs in 1836, they said, that was no reason to refuse to discount good business paper at this time. They suggested that even intelligent men of the Whig party might turn against the Bank if it did not alter its course.[55]

In March 1834, a committee of New York bankers consisting of such men as Gallatin, Goodhue, Brown, King, and others issued a carefully prepared analysis of the banking situation. Biddle replied at once saying that there would be no further diminution in New York up to the first of May, and if practicable there would be an increase. On July 11, once more in reply to a request by New York, the Board agreed to put an immediate end to all curtailments and approved cautious increase in loans at those points which most required relief.

The New York bankers agreed that the removal of the deposits and consequent policy of contraction on the part of the Bank was the cause of the "pressure on the money market" and the "public distress."[56] They added three other factors in their explanation. The first of these was the embarrassment of New York bankers who had recently purchased large amounts of secu-

rities issued in the Southwest which they had planned to market in England. The war on the Bank, which was closely observed in London, had certainly reduced the marketability of American stocks and bonds. Borrowing on bonds as collateral was doubtless feasible but sale was difficult at this time.[57]

They suggested that a second cause of financial embarrassment was the change in the arrangement for paying import duties put into effect by the Tariff Act of 1832. In former years, import duties had not been due and payable for a year or more after importation. Duties were often paid about the time the importer was paid by the consumer. In short, importers had been given a credit up to a year and a half equal to the amount of the duties payable. Under the new law, many duties were now payable at the time of import, and others were due within a short period after importation. This led to increased demands by importers on the New York and Atlantic coast banks.[58]

A third and more serious factor was the loss of business confidence. "Private credit . . . has been most deeply affected," said the bankers' report. "Importers diminish greatly their orders and their purchases of foreign exchange." The chain of credit relationships in merchandising generally had been disturbed. New enterprises and engagements of every description were avoided, and, in many instances, workmen are discharged or a reduction of wages required. It was this general breakdown of commercial credit, the general lack of confidence, and the tendency to "avoid" engagements of all sorts that was another cause of trouble. The indirect effects of the removal of the deposits were regarded as quite as significant as the direct effects on the prosperity of the country.

This same phenomenon was described by a correspondent of the *New York Spectator* as follows:

> The breaking of any one of the links of the great ramifying chain of mercantile credit, but more especially if it is a large link, is attended with a loud report. It reaches further than the fire bell, and it sounds on the tympanum of a rich capitalist ten times as loud as it does on the poor man's tympanum. The dollars he has operate like so many sounding boards. He imagines ten thousand evils. No poet can ever imagine half as much as a timorous, sensitive, rich money-lender, when a squall comes on. He holds on to all he has got, and gathers in all he can. This helps to strain the chain of credit — money grown scarcer and scarcer, although there is just as much in the world as there ever was — commodities fall in their prices, until they

get so low, that money is brought in to buy, and, in time, the money market is supplied.[59]

How shall we characterize the Bank's credit policy in 1833–1834? On the score of vindictiveness, its enemies were guilty of exaggeration. The removal of the Treasury deposits was accompanied by so many uncertainties and carried out in an atmosphere of such hostility that the Bank was justified in playing safe. Its serious error was in prolonging the crisis beyond the time necessary to provide for its own safety. Neither its interests nor the interests of the public were served by continuing the restriction of credit beyond January 1834. As early as November 1833, Biddle had privately admitted that the Bank was "entirely beyond reach of any mischief from the Treasury." [60] Beginning in 1834, the officers of the Bank ceased to feel the responsibility for the currency that had hitherto characterized them. Freed from a sense of public obligation they carried caution or indifference too far. Certainly it was not the immediate banking necessities that led to the credit restriction of 1834 but indifference to the public needs reinforced by the possibility of still further punitive measures on the part of the government.

Needless to say, this was a period of strained relations between the Bank's officers and the government-appointed directors. In 1833, for the first time, Biddle was not given a government directorship. Three loyal Jackson men among the government directors proved to be most objectionable. H. D. Gilpin, a prominent and much respected attorney from Biddle's home city of Philadelphia, was the outstanding member of this group.[61] At the meeting of the directors on January 12, he did not vote for Biddle for president. That caused annoyance. Throughout the year he studied the methods of administration and the publicity techniques of the Bank's president. These discoveries, together with a certain amount of editorial comment, he relayed to the Treasury. Jackson made extensive use of facts and ideas which came to him from this source.[62]

On December 10, when relations between the government and the Bank were at their worst, Jackson nominated as government directors, Bayard, Gilpin, Sullivan, McEldery, and a new appointee, Wager. Biddle regarded all of these men, except James A. Bayard, with scorn but he reserved particular detestation for Gilpin. In January 1834 he wrote: "the case of Gilpin is

worse than that of any of his colleagues. He had more capacity — more apparent decency — more was expected from him, in consequence of his having kept the company of gentlemen: and the very fact that he has a small attorney-like plausibility, makes his misrepresentations more mischievous."[63] Gilpin, along with Sullivan and McEldery, had publicly criticized the attempted postponement of the 3's. Their report to the government on this question made a document of impressive size.

The upshot of this was the blocking of the nominations for the government directorships by the Bank's friends in the Senate. James A. Bayard was quite unobjectionable to everyone and his nomination was approved. The situation was such that he declined to serve. The names of the other four were rejected twice. Needless to say, Jackson was greatly annoyed. Biddle thus won a battle which was of little real consequence to the Bank. The benefits, if any, were psychological: Jackson had been annoyed and men of the wrong sort had been kept off the board.

The next episode was the effort of the administration to remove the payment of pensions from the hands of the Bank, a function it had performed since 1817. It seemed logical that as the Bank was no longer the depository for the funds of the Treasury, it should no longer distribute pension money. On January 2, 1834, J. L. Edwards, acting for the Secretary of War, ordered Nicholas Biddle to deliver the funds and relevant books and papers, and to cease to pay pensions from that date. Biddle refused to turn over this material. President Jackson soon afterwards sent a strong message to Congress on this point. It was investigated by a Committee of the Judiciary under the direction of Biddle's friend Senator Clayton. The Committee supported Biddle and declared that the claims of the War Department were invalid. The War Department continued to use some of the branches for the distribution of pensions. Biddle won another minor battle.

On March 18, 1834, Webster asked leave to introduce a bill to extend the charter of the Bank another six years and restore the Treasury deposits after July 1. He preferred a permanent measure, but despairing of getting that he was willing to take a temporary one. In his opening speech he attributed the falling federal revenues, reduced commerce, and unemployment in the cities to the removal of the deposits. "The condition of the country is, indeed, singular," said Webster. "It is like that of a strong

man chained."[64] Benton seized this occasion to express his ideas on gold. Webster withdrew his proposal on March 26. The Bank's counterattack was a failure.

On March 29, Senator Benton introduced a resolution for the appointment of a joint committee of the House and Senate to study and report on the valuation of gold. The Gold Bill became a law on June 28, 1834, effective August 1. The silver-gold ratio was now 16:1. "Gold is the antagonist of paper," said Benton, "and, with fair play, will keep up a paper currency within just and proper limits. It will keep down the small notes; for no man will carry a five, a ten, or a twenty dollar note in his pocket, when he can get guineas, eagles, half eagles, doubloons, and half joes, to carry in their place."[65] According to him, the paper system of the United States had its origin in Hamilton's funding system. The Bank of the United States had failed in its role as regulator of local currency and provider of a national currency. Moreover, failure or no failure, this power was properly a governmental power. It should not be in the hands of any bank. The gold bill was a part of the attack on Biddle's paper system. The result was that the Bank received a revaluation profit of around $70,000. The statute made the United States a competitor for the world's stock of gold. Biddle had for many years regarded such a measure as a decision in favor of gold monometallism and an escape from the inconveniences of bimetallism.[66] He took this measure with philosophic calm.

Early in January 1834 a rumor circulated that Jackson had yet another weapon which he could use against the Bank if it persisted in its war with the government.

> I have a measure in contemplation which will destroy it at once, and which I am resolved to apply, be the consequences to individuals what they may. The Bank has in circulation ten millions of checks which I have no doubt are illegal, and which I will direct the State Banks to refuse in payment of the public revenue. These checks must then be returned upon the Bank, and will drain her of the specie she is hoarding. This measure I will apply unless the Bank desists from its course.[67]

Such an order was given on November 5, 1834, to be effective on the first day of the next year. With ample time to prepare for this, the Bank continued its curtailments in the spring of the year. Said Biddle: "we shall keep the Bank strong, and we shall be neither frightened nor coaxed out of our course."[68] To friends of the Bank, this new policy of forbidding the receipt of the drafts

of the Bank in payments to the government seemed an act of pure vindictiveness. The drafts had long been used in such payments and had been officially approved[69] as late as January 21, 1828. To the enemies of the Bank, its protest seemed to merit only contempt. Secretary Woodbury dismissed a letter of remonstrance from the Bank as "voluminous remarks." The Secretary then wrote a reply which fills eighteen folio pages.[70]

In the latter part of 1833, New York merchants reported that they had never seen a "more prosperous time . . . and during the past year business of almost every description [was] good." [71] Merchandise imports and exports increased, the earnings of ocean carriers were satisfactory — so satisfactory that the owners of ships reduced their sales of vessels to foreigners. There was a net import of the precious metals. Investment in public improvements continued at a high level.

The early part of the year 1833 was a time of active speculation in railway stocks. These securities were "all the rage," said the *New York Spectator*.[72] The stock of the Bank became a market favorite. According to the *Spectator*, in March:

> 1250 shares [of United States Bank stock] have been sold at 108–109! The rise, we believe, is without parallel, and has been occasioned by the Report of the Committee of Ways and Means. The *Bears* who have been contracting to deliver stock ahead, on the strength of Mr. Cȃmbreleng's operations in Washington and Wall Street, we opine, will wish they had been *Bulls*.[73]

By the end of September the situation had changed; it was quite certain that the Treasury deposits would be removed beginning in October and the decline in the price of United States Bank stock "attained panic proportions." [74] Niles alleged that the news of Jackson's message on his intention to remove the deposits leaked from a cabinet meeting, and that good use was made of this inside information by speculators in the stock of the Bank.[75] In the second half of the year, speculative enthusiasm for railroad stocks subsided. The price index of these stocks fell from 130 to 99 in about seven months. Interest rates were high and money was difficult to get toward the close of 1833.

The early months of the next year were definitely a time of business strain. A few banks failed. The ability of the Ohio banks to continue specie payments was so much in doubt that for a time the Pittsburgh banks refused to accept Ohio bank notes.[76] The state of Pennsylvania was embarrassed by the difficulty it had

in disposing of a bond issue for the completion of its public works. There was difficulty in negotiating bills of exchange. Good mercantile paper was sold at 12 to 18 per cent discount in the street. There was some unemployment in Philadelphia and elsewhere.[77] In both New York City and Albany savings bank deposits declined for the first time in their history. Webster gave Congress a harrowing picture of idle textile mills and unemployed workers in Paterson, New Jersey and in the mill towns of New England. Railway stocks, speculative favorites, declined forty-three points between July 1833 and February 1834. Congress discussed the "public distress" at great length. By the middle of 1834, the embarrassments of the country were about over.

Two foreign developments had a bearing on the prosperity of the United States in 1832 and 1833. In Manchester, textiles improved and there was a general improvement in trade in England in the latter part of 1832. By the middle of 1833 the price of cotton was rising spectacularly. "Advices from Europe have put the holders of cotton on their feet,"[78] said the *New York Spectator* in August. This was an important offset to American currency and banking developments.

The veto of the charter and the withdrawal of the Treasury deposits in 1833 caused London to view the American developments with a quizzical eye. The Bank, which was known to have an important role both "direct and indirect" in "abstracting capital for permanent application in the different states of the union,"[79] was apparently to be abolished. British observers wondered what "injurious consequences" would emerge from this.

The year 1833 saw the London money market a little less easy that it had been. Some gold was leaving the country and the Bank of England had reversed its policy of the previous year. Burgess, whose testimony is not beyond question, says that in 1833 the amount of capital going to the United States was less than it had been for several previous years.[80] Large state bond issues occurred in 1833 but it is not clear that they were being taken in large amounts by British buyers. It is probable that some decline in the sale of American securities did occur in the latter part of 1833 and early 1834. The effect of this would have been to reinforce the effects of the Bank's "harsh" policy.

The embarrassments of 1833–1834 were undoubtedly exaggerated by the press, by the Bank, and by the government. A crisis was even then dear to the journalists, and they made the

most of this one. When looked at in the light of the production figures, the credit stringency of 1833–1834 does not appear catastrophic. Commodity exports continued to mount, imports increased, and internal commerce expanded. About the worst that seemed to happen in this period was a slackening in the rate of economic growth.

Considering the circumstances, Biddle had been extraordinarily successful to date, partly because of the accidental factor of the unprecedented flow of capital into the United States [81] and partly because of his undoubted skill as a banker. This was the moment when he should have recalled the familiar idea of the ancient Greek dramatists that success breeds arrogance, and arrogance invites the anger of the gods. Biddle's contemporaries such as T. W. Ward were beginning to comment on his conceit. Had he been more wary, he would not have committed the Bank to a course within the next two years that ultimately led to ruin.

July 1834 officially marks the end of the curtailment policy. The Bank was certainly in a good position to do this for it held specie amounting to almost $13,000,000. Its own note circulation had been reduced. The Bank was no longer the depository for the Treasury and no longer had its old sense of public responsibility. Biddle thought that the state banks should no longer be allowed to be heavily or continuously in debt to the Bank. They had heretofore been trading on the Bank's capital; now he hoped to change this. In anticipation of the ultimate closing of the Bank some thought was given to the kind of loans that might be made. The general plan was to reduce the Bank's short-term loans which would not continue the earning power of the Bank after March 4, 1836. An increase in note issues was also regarded as an appropriate course.

The reduction of the portfolio of domestic bills continued to the close of 1834. This may have been less due to conscious policy than to the usual seasonal change. Bills discounted on personal security remained practically unchanged in the last half of 1834. "The bank," said Niles, "has a most liberal policy in its loans, discounting very long paper, at least in payment for its bills of exchange on Europe." [82] "Money [is] extremely plenty, and large sums remain idle for want of borrowers," said the *Journal of Commerce*.[83] In accordance with Biddle's notions about interbank relations, the Bank began to fall into debt to the state banks in

August. Throughout the year from August 1834 to August 1835 the Bank was almost continuously in debt to the state banks. In April 1835 this indebtness reached the considerable total of almost $4,000,000. Under other circumstances this would have alarmed the Bank, but not now, for the reason that its specie reserves were also increasing. Banks that desired settlement might have cash if they wished.

In 1835 the Bank's loans increased about $7,500,000. This increase took the form of a large increase in loans on "other securities" and some increase in domestic bills of exchange. There was an apparent real uncertainty about the Bank's future in the minds of its officers and directors. The talk was of closing in 1836 but there were speculative overtones in the letters that came from the Bank that suggested that reincorporation was also being considered. This indecision may account for the irresolution in the Bank's course during these days. The well-informed T. W. Ward thought that the Bank would close on March 3. It was also clear that the Bank planned no immediate cessation of earnings nor an immediate distribution of assets. In August 1835 Biddle wrote:

> In war, the most difficult movement is retreat — in finance, the great art is to close, not to extend your operations. Now the Bank at this moment is in full retreat in the face of the enemy. That retreat shall be conducted exclusively on its own views of the interest of the stockholders and of the community which are completely identified. . . we are now making arrangements for closing the branches, by giving credits of 1, 2, 3, and 4 years to the new banks who purchase our debts. The first effect of this course is to throw back upon the Bank the circulation and the deposits of the branches closed without any remittances from those branches, that is, to create an increased demand on the Atlantic offices where this circulation naturally tends. The Bank must then be quiet for a time. . . These are the natural and inevitable incidents of the present course of the Bank — and if the community will suffer itself to be frightened by the gang at Washington — why really they deserve to suffer.[84]

In preparation for the conversion of the Bank into the form suggested above, Biddle outlined the following course: first, to reduce the discount line to $7,000,000 as originally planned on March 10, 1835; second, to cease collecting and to refuse purchase bills on the offices west and southwest of Pittsburgh; third, to refuse to discount on Bank stock at 5 per cent unless the loan were for at least two years; and last, said Biddle, to increase the specie in the vault.[85] The expectations about specie were not

fulfilled. In the year 1835 it declined from $15,700,000 to about $8,400,000.

Some time in the latter part of 1835 the management at the Bank resolved to continue the institution under a state charter. Arrangements were made for the survival of the larger offices engaged in domestic and foreign exchange business: the offices in the more important cities along the Atlantic coast, New Orleans and a few others. The smaller branches and offices located in the Mississippi Valley were generally marked for extinction.

As a branch was closed, its investments took the form of domestic bills, if possible. These, payable in the eastern coast cities, were suitable for settlement between the branch and the Bank. Loans on personal security were turned over for collection to reputable banks located near the branches. About $15,000,000 of the "active debt" were thus converted. In return for $8,000,000 of it, the Bank received the promises to pay, running from one to four years, of a selected list of banks, the more important of which were the Planters' Bank of Mississippi, the Mechanics Bank of Baltimore, the Commercial Bank of Cincinnati, the La Fayette Bank of Cincinnati, the Providence Bank, the Merchants and Mechanics Bank of Pittsburgh, the Farmers' Bank of Virginia, the Bank of Virginia, the Bank of Charleston, and the Union Bank of New York. The total of such sales of "active debt" was very large in New Orleans, Natchez, and Mobile where the total was over $5,000,000. The Bank had a large interest in the preservation of solvency of the South. If Charleston and Baltimore be included, its sales of "active debt" in the South amounted to more than half the total. The Bank also converted some of its "active debt" into "loans on stocks," that is, loans secured by Bank stock and other issues. The rate of interest varied from 4 to 6 per cent. About half of these obligations were not due and payable until 1838 or later.[86] The Bank thus acquired frozen assets when it might have acquired liquid assets. This was a serious tactical error.

Among the other assets on March 1836 was about $5,500,000 of specie, the smallest amount it had owned for several years. In its portfolio were about $18,000,000 worth of domestic bills. The foreign balance showed a credit of about $1,000,000. Against these liquid assets stood about $20,000,000 worth of the Bank's notes and about $3,500,000 of deposit liabilities.

While the Bank was supposedly winding up its affairs, the country was having an extraordinary burst of prosperity. Prices

of American export goods rose sharply and cotton which had sold for twelve cents a pound now sold for eighteen. Liverpool cotton dealers discovered that the stocks of cotton in England were low, that the supplies of cotton coming from those minor, but not insignificant sources of supply, Brazil and the East Indies, were below normal, and therefore the market became brisk.[87] The general state of prosperity throughout the European world held out reasonable expectations of profitable markets to the textile merchants. With the world generally providing an exceptionally attractive market for the great southern staple, the Bank might have disposed of its southern assets for cash or the equivalent and have done so with ease. It missed this opportunity.

Even more important for American prosperity were the low discount rates which prevailed in London. The market for American stocks became favorable again and they were absorbed in large quantities.[88] Net specie imports in the year ending September 30, 1835 amounted to over $6,500,000. This sum was smaller than the imports of the previous year but it was the second largest on the record to date. Clearly the London money market provided the Bank with the means of successful liquidation. This might have been achieved without inflicting great damage on the business community.

Work on railways and canals went on vigorously. In the United States, the stocks of new corporations were eagerly purchased. An issue of Wilmington and Susquehanna Railroad stock of $400,000 was subscribed for within a half hour from the time of opening the subscription books.[89] Harlem Railroad stock was oversubscribed: the public would gladly have purchased three times the amount issued.[90] As 1835 drew to a close the business situation changed in that the market rates of interest began to rise and loans became harder to get. March 1836, when the old bank expired and the new one took over its assets, was not a time of monetary ease.

Money was becoming dearer in the latter part of 1835 in London, also. By the middle of the year it was observed that the Bank of England was making efforts to prevent the export of gold, some of which was undoubtedly going to the United States. In England, too, 1835 closed with trade and manufactures flourishing but with discount rates high. It began to look as if there might be a limit to the amount of American stocks and bonds which the London investment market could absorb.[91]

In December a disastrous fire occurred in New York City, which caused losses of more than $7,000,000. Insurance companies failed and New York banks were embarrassed. The Bank came to the aid of New York with large emergency loans in December. This was public spirited; it was probably good politics but it did not improve the Bank's liquidity.

Why did not the Bank seize this favorable opportunity to liquidate its affairs? The country was prosperous. Specie was flowing into the country. The last months of 1835 were extraordinarily favorable to the liquidation of a large institution. But the Bank chose otherwise.

One hypothesis is that the officers and directors wanted to avoid immediate liquidation in order to take advantage of a possible political overturn in Washington. Who could tell but perhaps a new federal charter might be obtainable two years hence?

More probable is the hypothesis that Biddle and his advisers never really intended to admit defeat and close the Bank. They knew that a charter could be obtained from more than one state and that a Pennsylvania charter was a definite possibility. They were aware of the difficulties which the liquidation of such a large institution would cause to business in Philadelphia and throughout Pennsylvania generally. Biddle and his friends knew how much Pennsylvania would lose if the stockholders who resided out of that state were repaid their investment in the stock. Local interests dictated the course which was actually taken.

At the final stockholders' meeting Biddle reaffirmed his earlier stand. Under his administration the Bank had furnished a currency which was sound. Its currency issues had greatly expanded and its transactions in domestic exchange had greatly increased. In thus providing a means of payment the Bank had served the public well and made a good profit for itself. On the state banks, the Bank had had a restraining influence when they were disposed to be rash and indiscrete. They had received aid from the Bank when it was deserved. In closing Biddle repeated his view that the Bank was not worth preserving unless it could exist free from political influence.

The stockholders approved Biddle's administration and voted him a "splendid service of plate, with suitable inscriptions in token and commemoration of the gratitude of the stockholders for his faithful, zealous, and fearless devotion to their interests." John Sergeant spoke at length of Biddle's merits.

> When danger threatened [he said], when credit was trembling, when confidence was shaken, whenever, in a word, a revulsion was threatened, with its disastrous train of consequences, this Bank, strong in its power, stronger in its inclination to do good, anticipated and averted the crisis. By judicious liberality, it prevented or relieved the pressure, it encouraged by its example and support, it cheered by its countenance.

And he went on to say:

> Hereafter, if search should be made among the rubbish of the years that are past, some things may be found in the wanton license of the press, which, unexplained, or falling into the hands of persons unacquainted with the times, might lead to the belief that this was indeed a strange sort of a Bank, and the President of it a very strange sort of a man. The record of this day's proceedings will be their triumphant contradiction . . . [The gift to Biddle] a grateful trophy of victory, won at last by integrity and truth over unmerited and unmeasured calumny.[82]

XI

# A Bad End

*1836-1841*

A charter for the Bank became a definite possibility early in January 1836. The bill which created the United States Bank of Pennsylvania was, significantly enough, introduced into the lower house of the state by the chairman of the Committee on Inland Navigation and Internal Improvements. Popular opinion within Pennsylvania was divided on the advisability of recharter. Business interests memorialized the legislature favoring it in order to avoid "injury from winding up the affairs of the United States Bank." Other interests favored recharter because they foresaw that the bonus which the Bank would pay for its charter would make possible always-to-be-desired tax reductions.[1]

Elsewhere the reincarnation of the Bank was regarded with mixed feelings. Influential groups in Maryland were friendly and suggested that the Bank be given a charter in that state. Ohio, on the other hand, considered prohibiting the circulation of the notes of the new bank and the establishment of branches in that state. Maine excluded any "branch or agency of a foreign corporation." Massachusetts considered a proposal prohibiting out-of-state banks or their agents from purchasing any bill of exchange or from discounting notes. New York considered a similar statute: Georgia[2] and Alabama thought of a ban on the Bank's notes by legislation. After twenty years, the Bank encountered a degree of financial parochialism reminiscent of its earliest days.

On February 19, the stockholders, with the exception of the federal government, met and agreed to accept the new charter. They authorized the appraisal and transfer of the assets of the old Bank to the new one and payment to the United States for its one-fifth interest. Old stock became exchangeable for the new on a one-for-one basis.

The title of the act of incorporation was: "An Act to repeal the state tax on real and personal property, and to continue and extend the improvements of the state by railroads and canals, and

to charter a state bank, to be called the United States Bank." [3] This suggests the price which the Bank paid for survival: loans and a large bonus to the state of Pennsylvania and a commitment to purchase that state's public utility stocks. More specifically the Bank was obligated to the state as follows: to pay a bonus of $2,000,000 at such time and in such installments as the governor of the state might specify (the Bank in the meantime, was obligated to pay 5 per cent interest on the uncalled-for portion), to pay twenty installments of $100,000 each, beginning June 1, 1836 and continuing for the following nineteen years, to pay $500,000 on March 3, 1837, to subscribe for various specifically designated public improvement stocks amounting to $675,000, to make long-time loans to the state up to $6,000,000 for which the state agreed to turn over to the Bank bonds redeemable in 1868 (at par if they were 4 per cent bonds and at one hundred and ten if they were 5's) and to make temporary loans up to a maximum of $1,000,000 in any one year at 4 per cent interest.

At the stockholders' meeting Biddle indicated his approval of the new charter. The price, which he estimated at $5,775,000, was not too much to pay to preserve "established credit" and "old connections" and avoid the losses which liquidation of the Bank would entail. The Bank, he had written to McIlvaine a few days earlier, was to be "made the channel by which capital to any extent may be brought in [from Europe] to aid our Penn[a] improvements." [4] About this same time he also argued that the perpetuation of the Bank would enable Philadelphia to continue to be the financial capital of the United States. The Bank was to be Philadelphia's offset to what Biddle had once called the "metropolitan magnificence" of the New York banks which seemed to require that important matters of finance have their center there.

Biddle and his associates had more than narrow economic objectives in mind in fighting for the survival of the Bank. The question, he said, "is no longer a mere question about the Bank — it is a question about the rights of all kinds of property in Penn[a] and indeed in the United States — and about the credit and character of the country abroad. My intention therefore, is . . . to settle at once the problem whether this commonwealth is a civilized community or a mere gang of banditti." [5]

The charter contained the following significant limitations on the powers of the Bank:

The said corporation shall not, directly or indirectly, deal or trade in any thing except bills of exchange, gold and silver bullion, or in the sale of goods really and truly pledged, for money lent and not redeemed in due time, or goods which shall be the proceeds of its lands. . .

The said corporation shall not be at liberty to purchase any stock whatever, except their own stock, treasury notes, or public stocks created by the government of the United States or of this state, or stock of, or loans to any of the incorporated companies of this state, for the construction and improvement of roads, bridges, canal or inland navigation, or other stocks which may be bona fide pledged as security for debts to the bank, and not duly redeemed.

The total amount of debts which the said corporation may at any time owe, whether by bond, note or other contract, excepting the amount of money due to depositors, shall not at any time exceed double the amount of capital stock actually paid in. . .[6]

Minor provisions of the charter prohibited the issue of notes of less than ten dollars, fixed a maximum rate of interest on loans made in Pennsylvania at ½ per cent a month, specified that notes, bills, and deposits were to be redeemed in gold and silver with a penalty of 12 per cent interest effective in the event of irredeemability, and the charter was to be forfeited if the irredeemability should last more than three months.

Four months after the charter was granted, it was amended to permit purchase of bank stocks. In September 1836 the Bank acquired control of the Merchants' Bank of New Orleans and in November of the Insurance Bank of Columbus, Georgia.[7] These institutions became agents of the Bank. The acquisition of these institutions suggests that the orientation of the Bank toward the South was a matter of considered purpose.

Privately Biddle thought the terms of the new charter "onerous." So did some of the stockholders. Biddle conceded that the motivation of the state legislature was to enable the citizens of that state to avoid repaying their loans to the Bank. To Baring Brothers and Company, he wrote:

To European eyes it [the charter] will seem a strange composition, but you are aware of the difficulty of making any arrangement with legislative bodies without conciliating a variety of interests, particularly where violent political feelings are in agitation. Substantially however it is a very good charter – better in many respects than the present. It has one very extraordinary merit. It is the triumph of good sense over the idle prejudices against foreign capital.[8]

The new Bank was indeed a "strange composition." In organization, personnel, assets and liabilities it was very different from

its predecessor. In intention and in effect the institution became "essentially and thoroughly Pennsylvanian." [9] The office at Philadelphia did a large general banking business and the offices at Pittsburgh, Erie, and New Brighton functioned similarly but on a much smaller scale. Outside of the state, the Bank did business through what were sometimes called offices but more often agencies. The most active of these were located in New York, Boston, Mobile, Natchez, and New Orleans. At other points the Bank was less active than it formerly had been and at a number of points it ceased to do business altogether. These agencies dealt principally in domestic and foreign bills of exchange. Almost no loans on personal security were made. Specie on hand was ordinarily nominal in amount. Payments were made in the notes of the Bank[10] or by means of drafts on neighboring state banks where the agencies maintained balances. The ownership became predominantly Pennsylvanian and European. By 1841 about half of the American-owned stock was domiciled in Pennsylvania. On the board of directors were Pennsylvania businessmen such as Joseph Cabot (of the firm of Bevan and Humphreys), May Humphreys, and Joshua Lippincott. Two names from the deep South appear on the board: J. Roberts [11] and G. Sheaff, both of Montgomery, Alabama.

The new Bank's assets were wanting in that liquidity hitherto regarded as desirable. It owned about $15,000,000 of claims on other banks arising from sale of the branches and their assets. If all went well, the Bank might expect payment of these claims in from one to four years. Even less liquid was the prepaid expense "Bonus to Pennsylvania."

A notable increase in collateral loans resulted from the Bank's new orientation. Stocks were now pouring forth in profusion from states, municipalities, and business corporations. In both New York and Philadelphia the Bank was under pressure to make loans on collateral, and it soon became an intermediary in the sale of stocks and bonds. Strictly speaking this was *ultra vires* and perhaps illegal. However, it was not difficult to circumvent restrictions on stock dealings. There was no prohibition on the Bank's taking over stock which had been collateral for a loan. A second means of trading in stock was arranged early in 1837. An agency was established in London to which interested persons might consign stocks and bonds for sale on an understanding with the Bank that when the securities were disposed of the Bank would make

payment in the United States at the prevailing rate of exchange (usually that of 60-day bills). For its services as middleman the Bank made a charge of 1½ per cent.[12] The new Bank's specie reserves were notably smaller than the reserves of the old bank.

On the liability side of the Bank's accounts, there was a decline in individual deposits. This was not due to public distrust of the new institution but rather to the discontinuance of a general banking business at most of the agencies. Only in Philadelphia was this item significantly large. The new Bank reduced its notes in circulation. This shrinkage was less than the shrinkage in its specie reserves. Moreover, the notes of the old Bank were not immediately retired from circulation but, on the contrary, were reissued. This practice soon obtained wide publicity, and gave the Bank's enemies one more talking point against it. A second species of note made a reappearance on the balance sheet, the post notes of ill repute. As the fortunes of the Bank changed in 1837 and the following years it came to rely more and more on these non-interest-bearing promises to pay specie at a future date. The amount of these issues was a reliable index of the degree of financial emergency within the Bank. In September 1839, immediately before it suspended specie payments for the second time, these post notes reached the record-breaking total of $9,082,498.65. Another new feature among the Bank's liabilities was the item "bonds in Europe." Of this item we shall have much to say later.

Settlement with the United States for its interest in the old bank resulted in an obligation to pay $7,946,356.16 in four annual installments beginning September 1837, plus 6 per cent interest until paid. Following the expiration of the old bank's charter two valuations of its assets were made, one by a committee from the Bank and one by a committee representing the government. The government's figure stood at over $118 and the Bank's at about $111. Secretary Woodbury publicly complained about the difficulty of settlement, whereupon Biddle memorialized Congress on the subject and suggested the figure of 115.58 for the government's shares. On March 3, 1837 Congress passed a resolution directing the Secretary to settle on these terms and specifically reserved the settlement of the claims of the government for the damages money on the French bill for later adjudication. As might have been expected, the federal government turned out to be an impatient creditor.

Was the Bank too large, as Sumner alleged? A $35,000,000 bank seems large for a state-incorporated institution in this period. Nevertheless, the maintenance of this large capitalization was probably necessary. It would have been difficult to dispose of its illiquid assets and retire part of the capital stock. Biddle actually at one time considered asking for an increase of the capitalization to $50,000,000. The Bank's administrative techniques and personnel had proved themselves adequate to this size. What the Bank suffered from was not giantism but lack of liquidity.

The history of the Bank under its new charter can conveniently be divided as follows:

| | |
|---|---|
| March 4, 1836–May 10, 1837: | A period of financial strain ending in suspension of specie payments. |
| May 10, 1837–Aug. 13, 1838: | The period of struggle for resumption. |
| Aug. 13, 1838–Oct. 9, 1839: | A period of specie payments ending in the second suspension. |
| Oct. 9, 1839–Jan. 15, 1841: | A period of inconvertibility. |
| Jan. 15, 1841–Feb. 4, 1841: | A brief and hectic interval of specie payment. |
| Feb. 4, 1841– | Failure and liquidation. |

## Section I. *March 4, 1836 to May 10, 1837*

When the new Bank began its career, "the state of the country," said Consul Robertson, was

> prosperous beyond example, the accumulation of wealth in the western districts is unprecedented in so new a country. The rage for speculation in lands is great and hitherto has proved very lucrative to the adventurer. The mania for rail roads is without any bounds, there is scarcely a former bye path that is not converted into a rail road. It is marvelous to think where capital for such extensive operations can be procured, no doubt it proceeds from the facilities afforded by numerous banking institutions. But should a revulsion take place in the money market (an event very probable) it may be expected that a serious reaction must follow.[13]

Imports were greater than ever before. Many new state banking institutions began business. Sales of public lands amounted to over $24,000,000, and for the first time in history exceeded import duties as a source of revenue. In the commercial cities, real estate was rising in price. The building trade was very active.

Two domestic factors excited alarm. In 1836 the crops were poor in the United States. In the summer it looked as if the United States might have to import foodstuffs which it normally exported

– flour, for example. It turned out that flour exports were less in 1836–1837 than for any other year from 1815 to 1841. The discount rate for short-time loans was high. Early in the year "street rates" of 2 per cent a month were reported for Philadelphia. Equally high rates prevailed in Wall Street in April for paper of the highest credit. In December, 3 per cent a month was offered for "good notes" in Boston.[14] "In many cases [Philadelphia] capitalists who have money in their possession . . . refuse to loan it, or hold on with the expectation of obtaining still more enormous usury," said Niles.[15]

In spite of high money rates, the boom continued. Commodity prices were well sustained: cotton prices reached new heights. There was an increased importation in all sorts of commodities but the increase was especially noteworthy in rolled bar iron, pig iron, and the luxury item, silk. This period was also one of specie importation. These importations were possible not only because of the availability of short and long-term European capital to Americans but also because of the fortuitous circumstance of receipt of foreign indemnities in this year. The French had at last made the necessary appropriations and from them the United States received 18,486,666 francs. Some small indemnities were also received from Naples and Spain in this year. All told, indemnities amounted to about $4,500,000. The French indemnity affected the English money market because some of the French remittances were made by drawing on England.

The state banks, now depositories of the funds of the federal government, were unofficially urged to increase their loans and they attempted to comply with this recommendation from Washington. Loans and discounts as well as bank notes and deposits reached a new high. The effects of this bank credit expansion were clearly observable even in states like Maine, New Hampshire, and Vermont. Maine, for example, enjoyed a speculative boom in timberlands. In areas like Ohio and Mississippi, the effects of the credit expansion were even more noticeable.[16] Thus the policies of the federal government fomented credit expansion. This, in turn, stimulated speculative purchases of lands. Because of this, the surplus in the Treasury grew. The surplus consisted of deposits in state banks and of state bank notes in the hands of receivers of the public revenue. In his last annual message, Jackson belatedly suggested that this process of expanding bank loans and the accompanying land speculation should be checked.

His policies had placed the government at the mercy of the state banks. These institutions were more remote from presidential control than the Bank had ever been.

Into this unstable situation, the federal government introduced several measures which aggravated the instability. First, Collectors of the Public Revenue were ordered not to receive small bank notes. Second, it was stipulated that on and after August 15, 1836 public lands must be paid for with gold and silver.[17] This was, in effect, a declaration that the government wanted to separate itself from the state banks which it now saw it could not effectively control. Nicholas Biddle, though he disapproved of the specie circular, perceived with sardonic detachment that this was an abandonment of the state banks by their former champion. This policy had the effect of attracting specie away from banks in the centers of commerce and into outlying areas, such as Michigan,[18] where land sales were large. Third, Congress authorized that the surplus in the Treasury above $5,000,000 be distributed to the states in proportion to their population. The distribution was to be made in quarterly installments beginning January 1, 1837.

In preparation for the distribution, the Treasury began to shift its balances to banks in the states to which they were apportioned. Biddle described the situation thus:

> The combination of the two measures produced a double result — first, to require the banks generally to increase their specie, and next to give them the means of doing it, by drafts on the deposit banks.
>
> The commercial community were taken by surprise. The interior Banks making no loans and converting their Atlantic funds into specie, the debtors in the interior could make no remittances to the merchants in the Atlantic cities, who were thus thrown for support on the banks of those cities, at a moment when they were unable to afford relief on account of the very abstraction of their specie to the West. The creditor States, not only receive no money, but their money is carried away to the debtor States, who in turn cannot use it, either to pay old engagements or to contract new. By this unnatural process the specie of New York and the other commercial cities is piled up in the Western States — not circulated; not used, but held as a defense against the Treasury — and while the West cannot use it — the East is suffering for the want of it. The result is, that the commercial intercourse between the West and the Atlantic, is almost wholly suspended, and the few operations which are made, are burdened with the most extravagant expense . . . Thus while the exchanges with all the world are in our favor — while Europe is alarmed, and the Bank of England itself uneasy at the quantity of specie we possess — we are suffering because, from mere mis-

management, the whole ballast of the currency is shifted from one side of the vessel to the other.[19]

While this was going on in the United States, the situation in the London money market was getting worse. In the second half of 1836 the Bank of England began to lose gold: its specie declined from about 7.4 millions of pounds to about 4.25 by the end of the year. Not until it had taken heroic measures did the precious metals begin to return in the second half of 1837. Some, although not the bulk of this specie, was being sent to the United States which in the fiscal year 1835–1836 was a large net specie importer. The London money market was vulnerable to the process of short- and long-term borrowing such as the Americans were carrying on at this juncture. The Bank of England let it be known that it disapproved of the foreign exchange practices of the Bank of the United States and the general American practice of drawing bills of exchange against "uncovered credits," [20] elsewhere characterized as "mere credit-bills concocted solely for the purpose of raising working capital." [21] It was rumored that the Bank of England was determined to reverse the direction of specie movements and especially to get back some specie that had recently been sent to the United States. On July 21, 1836, it raised the bank rate to 4½ per cent and six weeks later to 5. Baring Brothers and Company analyzed the situation early in 1837 as follows:

> The Bank of England is very strangely placed by her inability to reach the United States, the greatest commercial country except this, and the true way after all must be to refuse to discount American paper by which an end would be put to the circulation and by degrees the balance would come. The Bank has got to the end of its Exch$^{r}$ Bills and may sell her dead weight without in the least increasing her stock of gold. There is very little gold on the Continent and it cannot be got back from America.[22]

By the end of 1836, many of the American houses in England were in serious financial difficulties. Weakest of all were the houses of T. Wiggin and Company, T. Wilson and Company, and George Wildes and Company, popularly referred to as the three W's. Other American houses such as W. and J. Brown, F. de Lizardi and Company, and Morrison, Cryder and Company were also thought, at one time, to be in danger of failure. These firms had become increasingly important in the British-American trade,

while more conservative firms, such as Baring Brothers and Company, had become relatively and perhaps absolutely less important.[23] In October 1836, the (London) *Circular to Bankers*, estimated the volume of acceptances arising out of this trade at £9,000,000 or more!

Early in 1837 the Bank of England engaged in what the *Morning Chronicle* called a "proscription" of the three W's. It refused to discount bills bearing the names of these three firms. By June 1837 they had failed. The other American houses, with this example before them, were given aid by the Bank of England to

*TABLE 19*

*Specie and Bullion Movements between the United States and the United Kingdom, France and the Netherlands, 1834–1841*

| Year beginning Oct. 1 | The United Kingdom Imports from | Exports to | France Imports from | Exports to | Netherlands Imports from | Exports to |
|---|---|---|---|---|---|---|
| 1833– | $5,809,513 | $270 | $1,660,972 | $70,274 | $60,071 | ........ |
| 1834– | 1,320,238 | 39,037 | 519,046 | 630,622 | 50,608 | ........ |
| 1835– | 2,326,280 | 12,500 | 4,841,004 | 112,633 | no data | no data |
| 1836– | 120,299 | 2,462,250 | 1,053,057 | 314,700 | 32,461 | ........ |
| 1837– | 9,009,340 | 10,185 | 2,240,312 | 476,765 | 9,512 | $3,612 |
| 1838– | 1,420,092 | 2,163,490 | 156,634 | 2,017,798 | 2,388 | 260 |
| 1839– | 806,306 | 4,383,786 | 1,120,249 | 2,198,603 | 466 | 800 |
| 1840– | 581,842 | 3,018,137 | 285,793 | 4,088,629 | no data | data |

Source: Bureau of Statistics, U. S. Treasury, Statistical Tables Exhibiting the Commerce of the United States with European Countries from 1790 to 1890. (Washington, 1893), pp. lix, xlix and liv.

carry them through the crisis with the expectation that they would not connive in the future to make excessive demands on the London capital market.[24]

The consequence of this curb on credit and effort to stop the export of gold was a crisis in our foreign exchange market in the spring of 1837. In the first three months of the year rates stood at the specie export point and in April they were well above it. Between eight and ten millions of dollars' worth of bills returned to the United States under protest. American cotton exporting firms failed and the cotton market was thrown into confusion. One consequence of this attempt at qualitative credit control by the Bank of England was a modest success in reversing the direction of specie movements. For the first time in several years, American gold and silver exports to England exceeded imports by about two and a

third millions.[25] Another effect was the return of merchandise to British firms by their erstwhile American customers who had been relying on the acceptances of the now bankrupt American houses.

Together with direct action against the American houses, the Bank of England utilized the familiar means of money market control. Its holdings of securities were reduced from £31,000,000 in February 1837 to £24,000,000 in November. Thus, in about nine months, the Bank of England increased the bank rate, sold securities and took direct action against the American houses. These measures were enough to secure the Bank of England's immediate objectives: by the end of 1837 its specie reserves amounted to more than £8,000,000, the highest figure in several years. In November money was reported to be very abundant in London and good bills of exchange were discounted at 2¾ per cent. The Bank of England thus solved its problems and created some for Americans. Let us turn to developments at the Bank of the United States in this period.

Following March 4, 1836 the Bank's pattern of loans took on a somewhat different aspect from the earlier one. Loans "on other securities" increased, partly because of the arrangements made with other banks to take over branches in the latter part of 1835 and partly because of collateral loans to clients. Loans on personal security were half or a third the amount they had been in earlier years.[26] These loans on personal security were commercial in character more often than were the other types of loans. Even the portfolio of domestic bills of exchange was less by about half than it had been in the last year of the old Bank's life. In July 1837 there suddenly appeared on the Bank's statement a new entry: the so-called stock account. This $13,000,000 asset account consisted partly of stocks which had been used for collateral for loans, partly of stocks directly acquired by the Bank.

On March 4, the Bank owned about $5,000,000 of specie. For more than a year this reserve account decreased and reached a low point of less than $1,500,000 in the emergency period of May 1837. Not all this loss of specie was due to the demands of depositors or the general note-holding public. The Philadelphia office was frequently a net debtor to the state banks and this undoubtedly led to demands for cash.

The new Bank had hardly begun when Samuel Jaudon was dispatched to London, Amsterdam, and Paris to borrow any sum of money that he could secure up to $7,000,000. The terms and

duration of the loan were to be determined by Jaudon.[27] One very important reason for doing this was to secure funds with which to do business while the assets frozen during 1835 were being converted into cash. On May 4, 1836 a one-year loan at 5 per cent for £1,000,000 was arranged in London through Baring Brothers and Company and Messrs. Overend, Gurney and Company. A loan of 12,500,000 francs was arranged in Paris. Thus the Bank took a fateful step on the path of indebtedness to Europe. It became a large borrower in a market where renewals were uncertain and it did this at a time when its own investments were by no means liquid. It embarked on this course at a time when the United States was floating on a tide of business prosperity compounded of high prices for cotton and a large inflow of foreign capital. There were definite signs that the tide was ebbing but the Bank did not heed these signs. Public interest in this daring venture on the Bank's part was widespread. Said the *New York Spectator*: "The Globe will go into hysterics when it hears the news." [28] That faithful supporter of Jackson and his party would have been right: probably for the wrong reasons.

Jaudon further strengthened the Bank's foreign position by arranging with Baring Brothers and Company for an open credit of £250,000 "with the right on the part of the Bank to draw for an additional £250,000 provided that at the time of drawing, current American Stocks were transmitted to cover the drafts." [29] Although the extra credit was not extensively used and was presently revoked, at the time it was given it was indeed a triumph for the Bank. The world's greatest merchant banking house had expressed confidence in the Bank in a form most useful to it in an emergency. This feat was accomplished while the London money market was becoming uneasy, at a time when the Bank of England was making it unmistakably clear that it disapproved of the Bank's foreign exchange transactions and of the all too general American practice of drawing finance bills and of shipping stocks to London and selling exchange against stocks as a remittance, and in a period when English investors were beginning to be less interested in American securities. These accomplishments were a tribute to Jaudon's undoubted skill as a financial diplomat. It is hardly to be wondered at that under the circumstances he thought and said that the directors of the Bank of England were "behind the times." Biddle, he thought, might shortly give the Governor "a good lesson." [30]

The particular event that occasioned the general suspension of specie payments in May 1837 was the failure of a large number of firms in New Orleans. The merchants and bankers there were particularly sensitive to the credit situation overseas. Dependent on the cotton market as they were, and with a lively interest in the continuing marketability of southern state bonds in Europe, the banks and merchants of the Gulf Coast were a weak link in the chain of business relationships. At the time of the Bank of England's attack on the American houses when the three W's failed and when the fate of other important merchant bankers was in doubt, large numbers of foreign bills of exchange were returned dishonored. This, in turn, caused a dishonor of many domestic bills of exchange. There was a general loss of confidence and a scramble for cash. This situation unfolded at a time when domestic financial conditions were disturbed by the consequences of both the specie circular and the distribution of the surplus in the Federal Treasury to the states. Like the panic of 1818–1819, this one was compounded of external contagion and internal predisposition.

*TABLE 20*

*Prices of American Cotton in England, 1836–1841*

| | 1836 | 1837 | 1838 | 1839 | 1840 | 1841 |
|---|---|---|---|---|---|---|
| Jan. | 7½–10½ | 7½–11¼ | 7–8¾ | 7⅜–9 | 5½–6¾ | 6–7¼ |
| Feb. | 8¾–10½ | 7–10 | 6½–8 | 7⅛–8¾ | 5–5¾ | 6–7¼ |
| Mar. | 9–11¼ | 6–8 | 6½–8¼ | 8–9¾ | 5–5¾ | 6–7¼ |
| Apr. | 10½–12 | 5½–8 | 5¾–8 | 8½*–10 | 5–5¾ | 6⅛–7½ |
| May | 10–11¾ | 5¼–7¾ | 5¼–8¼ | 7¾–9⅝ | 4¾–5½ | 5⅝–7½ |
| June | 9–11¾ | 4¾–7½ | 5¼–8¼ | 7⅜–9½ | 4½–6¾ | 5⅜–7¼ |
| July | 8½–10¾ | 5–8 | 5½–8¼ | 6–7 | 5–6¾ | 5¼–7 |
| Aug. | 8½–10½ | 5–8 | 5¼–8 | 6½–8½ | 5–6¾ | 5–7 |
| Sept. | 8¾–11¾ | 5½–8 | 5⅜–8¼ | 6¼–7½ | 5–6¾ | 5–7 |
| Oct. | 8¾–11¾ | 5½–8 | 5⅛–8¼ | 6–8½ | 5¼–6¾ | 5–7 |
| Nov. | 7½–11¼ | 6½–8 | 5¾–8½ | 5¾–7¾ | 5–6½ | 4¾–6¾ |
| Dec. | 7½–11¼ | 6¾–8½ | 6½–8¾ | 6–7¾ | 5–6½ | 4¾–6¾ |

* Quotations in *d.* per lb. for Georgia Upland cotton.
Source: *London Mercantile Price Current.*

A break in the price of cotton coincided with the financial crisis. From January through March, cotton sold for around 18 cents a pound in Boston. By May, it was down to 11 or 12 cents. There was a concurrent fall in the price in England. (See Table 20.) Nevertheless, in the fiscal year 1836–1837 the value of cotton exports from the United States dropped only from 71 millions

to 63 millions. Were the difficulties of the banks due to the "break in the cotton market"? Without question the decline in cotton prices aggravated the situation. It should not be overlooked, however, that throughout this period there was a net inflow of specie to the United States. The decline in the price of cotton was not sufficient to induce a net specie outflow. It can hardly have been the primary cause of the panic of 1837.

In the spring of 1837 the difficulty of making foreign remittances became acute. Sterling bills sold for a premium of 12½ per cent and even at that rate they were hard to secure. Bills of exchange drawn by individuals were suspect owing to uncertainty about the future of the American houses in London and owing to the undoubted fact that many private bills had been or were currently returning from London dishonored. The London *Times* remarked with apparent satisfaction that the "drawing of private bills is at an end." There ensued a lively interchange of ideas between New York and Philadelphia financiers about ways to meet this challenge. New York merchants recommended to Biddle that the Bank send specie to Europe to ease the payments situation. With less than two millions of specie at the Bank and with steady withdrawals of specie at the rate of half a million dollars a month, the Bank could not take this tradition-approved course. On a visit to New York in the latter part of March, Biddle described the situation as "alarming" and calling for "strong measures to put down a feeling of despondency and despair."[31] The response which Biddle made to this challenge was an issue of $4,000,000 worth of one-year Bank bonds payable in London, Paris, and Amsterdam. His intention was to substitute the credit of the Bank for the temporarily extinguished private credit. The bonds would be acceptable in settlement of foreign debts until such time as the export of merchandise and the revival of private credit once more played their normal role in international payments. A second reason for this bold step and one which was never given any publicity was the fact that the Bank found the sale of these bonds to New York merchants an exceedingly helpful device for securing much needed New York funds for itself. When the issue of bonds was a *fait accompli*, Biddle informed the Bank's foreign correspondents of this action.[32]

Other New York and Philadelphia banks issued bonds similar to those issued by the Bank. Prominent among these was the Morris Canal and Banking Company of New Jersey. Its bonds were

endorsed by the Bank of America and made payable at the firm of Morrison, Cryder and Company in London.

T. W. Ward gave a qualified approval to this novel arrangement. To Baring Brothers and Company he wrote: "Still I think to a moderate extent it is desirable to be done as a medium of remittance until we can get our specie from the west and a supply of cotton bills which low prices and failure have kept back." [33] Americans generally approved of this emergency issue of bank bonds at the time. In the spring of 1837, New York bankers were more disposed to criticize the Bank of England than the Bank of the United States. The former by its policies had precipitated a crisis: the latter had provided leadership and the means of avoiding some of the worst consequences of that crisis.

London gave a mixed reception to this issue of bonds. "You will observe that the public has taken a right view of your proceedings and your bonds go off as fast as they arrive . . . ," wrote Joshua Bates, ". . . the stock exchange having taken hold of them and money being plenty, they operate as a cash remittance & their arrival produced a complete change in the face of commercial matters here." [34] In contrast with this favorable verdict in the market, the London *Times*, which generally took the Bank of England point of view, described the bond issue as the "American experiment for establishing a paper circulation in this country." [35] Without question, the funds thus obtained in London cushioned the impact of the events of May 10, 1837.

Some time in April the Bank issued over $4,000,000 of post notes for sale in the domestic money market. With these, the Bank was able to retire almost $2,000,000 of its notes payable on demand. It was hoped that post notes might bring out money from the hoards of "those who were afraid to trust the merchants." The sale of these post notes temporarily strengthened the home office in Philadelphia which had been under pressure to pay out its specie owing to its indebtedness to the state banks of Philadelphia and New York. In the spring of 1837 other banks in New York and elsewhere were also large issuers of post notes.

The suspension of specie payments on May 10, 1837 was "necessary, expedient and for the interests of the people," reported a Massachusetts investigating committee.[36] Biddle justified it on the ground that, had the Bank continued to pay specie, the government would soon have drained it of all its cash. This was a convenient rationalization. The Bank's specie reserves were low in

spite of heavy borrowing and in spite of the specie importations of the previous year. Even if the government had been friendly, suspension would have been necessary.

The implications of the events of May 10 were more ominous for the Bank than it realized. A few critics raised their voices at this time. Langdon Cheves severely criticized the institution: some of its assets were of doubtful value in his opinion and some of its liabilities, such as obligations in Europe and post notes, might be a source of trouble. In his opinion the Bank had gone beyond the "usual functions" of a bank and perhaps "overstepped its chartered privileges." [37] Cheves's opinions received little attention in the United States, but Consul Ogilby in Charleston sent them to Lord Palmerston in the British Foreign Office. Jackson continued to fulminate against the Bank, of course.[38] But generally speaking public confidence was well maintained. Even that acute and not always friendly observer, T. W. Ward, thought that Biddle had put the Bank into a strong position.

### Section II. *May 10, 1837 to August 13, 1838: The Struggle for Resumption*

Following the suspension of specie payments there ensued a feeling of financial relief. Prices of stock advanced. The domestic exchanges registered various degrees of discount or premium on various parts of the country. Internal trade was dull. Southern and western merchants who desired to make purchases in the commercial centers of the East found it difficult to do business because of reluctance to accept their bank notes or bank drafts. Merchandise imports declined and specie was exported. Although the period was one of dull business there was no epidemic of commercial and bank failures. In modern parlance, this period was a "recession" rather than a serious depression. Between January and May 1837 the index number of prices of export products declined from 136 to 94 and the price of cotton (in Boston) fell 7 cents. In spite of this, production was well sustained and only in a few lines was there a decline. The international financial situation of the United States was precarious but nevertheless men continued to plan for further capital expenditures contingent upon European investment. There was some unemployment but not enough to cause widespread comment. The wages of seamen, which for many years had remained stable, were reduced about 30 per cent in the first half of the year. In this field the rebound was prompt

and by the end of the year these wages were back to their former levels. The 1837 recession was by no means as disastrous as the one in 1819.

The situation was slightly relieved by some minor changes in policy by the federal government. Congress voted not to distribute the fourth installment of the surplus: payment was postponed — and never made. By this means the apparent deficit of the United States Treasury was lessened and the deficits of the states increased. To hard-pressed importers, Congress granted the relief of a nine months' extension of time for payment of duty bonds.[39] Quite unintentionally, Congress followed that course favored by theorists in modern times: it ran a budgetary deficit. Financial

*TABLE 21*

*Government Budgetary Surpluses and Deficits and Changes in the Gross Debt of the United States, 1836–1841*

| Year | Deficit or Surplus (000 omitted) | Change in the Gross Debt (000 omitted) |
|---|---|---|
| 1836 | +$19,959 | + $299 |
| 1837 | −12,289 | +2,971 |
| 1838 | −7,562 | +7,126 |
| 1839 | +4,584 | −6,861 |
| 1840 | −4,837 | +1,678 |
| 1841 | −9,706 | +8,343 |

Source: Bureau of the Census, *Historical Statistics of the United States, 1789–1945,* pp. 297 and 307.

purists in Washington advised strict economies, but Congress passed the legislation providing for the issue of Treasury notes by large majorities. These one-year interest-bearing notes were used in payment to the government's creditors and also were made receivable by the government in settlement of duty bonds.[40] Deficit financing in 1837 and 1838 was followed by a business revival in the latter part of 1838 and early 1839. In 1839 there was a small budgetary surplus, a part of the Treasury notes were retired and in the latter part of that year the depression returned with redoubled force: so did the deficits and the issue of Treasury notes. (See Table 21.) These developments in public finance appear to the writer to have been of minor importance for the ebb and flow of business. In the late 1830's the really important factor was the ebb and flow of foreign capital.

Because of the legal restrictions under which it worked, the Treasury was not in a position to give much relief to the banking

community. According to the statutes, it had to demand that payments to it be made in specie or in notes redeemable in specie. On October 17, 1837, the depository banks were informed that suit would be brought against them unless they executed bonds to pay the sums due to the government in three installments with interest at 6 per cent until such payments were completed.[41]

As early as March, efforts had been made to secure the repeal of the specie circular. Biddle and other financiers inveighed against it as the cause of the panic. In this attitude Biddle was confirmed by his foreign correspondent, who thought that such a thing as the specie circular would have "produced almost universal bankruptcy" in England.[42] President Van Buren resisted these political pressures for more than a year. It was not until May 31, 1838 that a congressional resolution reversed the policy of insisting on specie payments for public land.[43]

At the time of the abandonment of specie payments, Biddle's ideas seemed to be orthodox and conservative. "The step," he wrote to Adams, "is excusable only on the ground of an overruling necessity. We must not make the remedy itself a disease. It must not be the pretext of extravagant loans or issues." [44] T. W. Ward reported: "I found Mr. Biddle's views in regard to the Bank of England and its course were kinder than my own — and he thinks that it would have a good effect to have some breaking up on our side, and that it would be a relief all round to have [the three W's] all fail . . ." [45] To General Hamilton, Biddle wrote: "I concur with you fully as to the extreme hazard to which our credit system is now exposed, and from which nothing can save the country but an early return to specie payments. This inconvertible paper money is like opium eating — delightful at first and an agreeable sedative after the violent action which we have lately undergone — but as the habit becomes familiar, the dose must be doubled and the whole frame is prostrated." [46] Much of this Biddle was soon to repudiate.

The cotton speculations for which Biddle became notorious began in July 1837. With the Bank of England hostile to American finance bills, with the Bank now heavily in debt to Europeans, with a large mercantile debt owing by Americans to Europeans, and with long-range ideas about the desirability of a high credit rating in Europe, Biddle decided to intervene in the commodity export trade. He held that what the foreigners wanted was to be paid: paid in pounds, or francs, or guilders. Foreign currencies for

these payments would be the more abundant and be obtained at less real cost to Americans if the prices of cotton were well sustained in Liverpool. The debts had been contracted when cotton prices were high. Therefore why not pay them with high-priced cotton? Thus he argued in public.

The Bank had always been the leading foreign exchange banker in the United States. It had always been a large purchaser of cotton bills. At the various agencies throughout the South there were trained men from the personnel of the now defunct "offices." It was, therefore, a comparatively simple matter administratively to arrange for the shipment of the cotton. The partial vacuum caused by the failure of the cotton brokerage firms in 1837 was thus filled by the Bank.

At this time, A. G. Jaudon of New Orleans and other agents were authorized to purchase cotton and ship it to Baring Brothers and Company[47] in Liverpool and to Hottinguer and Company in France. Purchases were made with Georgia, Florida, and Alabama money[48] as well as notes of the "late" Bank.[49] Any surplus from the sales of the cotton above that necessary to meet the bills drawn in connection with the shipments was to be placed to the credit of the Bank.[50] The total of shipments in the first series of ventures amounted to $2,182,998.28.[51] By the end of the summer this first series of shipments was completed, probably with a profit.

In the autumn of 1837, a second (and more adequately described) series of cotton shipments was begun by Biddle for himself and associates. The Philadelphia firm of Bevan and Humphreys was invited in October to accept bills drawn on them from the South by Biddle's agents under a guarantee by the Bank to provide funds to meet them as they became due and to transmit the bills of lading to Humphreys and Biddle of Liverpool.[52] Cotton was also to be shipped to France. The steps involved were: procurement of the cotton by Biddle's agents in the South; payment for it by means of bills on Bevan and Humphreys; advances by the Bank to meet the cotton bills accepted by Bevan and Humphreys; ultimate sale of the cotton by Humphreys and Biddle in England and the Bank's agents in Holland and France.

For some time there had been a growing dissatisfaction with the performance of Baring Brothers and Company. When the first cotton shipments were consigned to them, Barings sold the cotton on arrival at the prevailing market price. This was standard

procedure but it did not accord with Biddle's ideas about holding the cotton until it was salable on favorable terms. Much more important was the fact that in the critical last quarter of 1836 the English firm had "cut off" their American "friends" from drawing against stocks and in 1837 had revoked the long-standing "uncovered credit." [53] This step on the part of Baring Brothers was reasonable enough. It will be recalled that early in 1837 the Bank of England was determined to stop the loss of gold to the United States through the sale of American stocks there and through the practice of drawing Sterling exchange against the shipment of stocks. With the plight of the three W's before it, Baring Brothers and Company were in no position to disregard the opinions of the Bank of England. To the Bank of the United States, on the other hand, this looked like desertion in the face of the enemy. Baring Brothers had done their best to interest the Bank of England in assisting the Bank of the United States to supply the most pressing needs of Americans for exchange in the spring of 1837. The Bank of England had indeed suggested such an arrangement but unfortunately it called for shipment of specie for 50 per cent of the bills drawn. This, for obvious reasons, was unacceptable to the Bank. A possible third factor contributing to the rift between the Bank and its old correspondent in London may have been the "friendly disposition" [54] of the Rothschild firm, which was endeavoring at that time to expand its role in American trade and finance. For various reasons, Biddle began to plan new ways to handle the Bank's complicated foreign affairs.

The firm of Humphreys and Biddle was especially created to take care of cotton shipments to England, accept bills of exchange, and carry out the incidental financial operations. Mr. Humphreys had been a partner in the firm of Bevan and Humphreys and a director of the Bank; Mr. Edward Biddle, son of Nicholas had been trained in the countinghouse of Bevan and Humphreys. The newly established Liverpool firm handled cotton shipments made by Biddle's agents for others as well. Many southern banks consigned their cotton to this firm in the next few years. Throughout 1838 and 1839 Humphreys and Biddle were, on many occasions, the largest recipient of cotton in Liverpool. For a time there was a notable decline in the amount of business done by the older firms. For Biddle, and for others as well, arrangements were made for Humphreys and Biddle to "hold on for favorable days, or weeks, for sale." This firm was

not to be "forced to sell, to meet bills drawn against consignment." [55] It was provided that if the bills drawn in Philadelphia by Bevan and Humphreys should mature at a time when cotton prices were low, Humphreys and Biddle could draw on Jaudon, the Bank's agent in London, to meet the maturing bills and avoid the necessity of selling in an unfavorable market.[56] Biddle's letters suggest that similar arrangements for deferred sale were offered to other shippers; they also suggest that the shipments of Bevan and Humphreys definitely had a preferred status in this regard.

The Agency in London to handle the Bank's Sterling business was also created at this time. Its purpose was to accept and pay bills of exchange, sell American stocks and bonds, borrow in the London money market, administer the Bank's deposits in London, and to be the Bank's general financial agent in Europe. Samuel Jaudon departed for England in October 1837 to have charge of this Agency.

Baring Brothers and Company were thus eliminated as the Bank's foreign agents. They were not sorry to have this relationship terminated. Said T. W. Ward:

> The Bank can do a great business in Exchange Cotton & Stocks, and if all goes right, may make much money, but the concerns of the Bank are extended and their proceedings as I now understand it, unwise. I think you [Barings] were right in not placing yourselves in their power.[57]

Concerning Jaudon and Humphreys, he remarked: "Mr. Jaudon is clever, but too speculative — and Mr. Humphreys is clever on a small scale but conceited and not a man of straightforward purpose."

These new institutions were regarded with mixed feelings in London and conservative opinion was strongly against them. On December 2 the *London Morning Herald* carried the following:

> The avowed primary object of Mr. Jaudon's mission is to establish a working system of exchange similar to that which now prevails between this country and the continent, and an open market for every description of American securities and stocks. Mr. Biddle's secondary object is to nullify the late agency system which has prevailed in one particular character for 10 years and to substitute Mr. Jaudon for Messrs. Barings, Brown, and Co., and other eminent houses, as well as the late suspended firms, and by indirect means, such as we have referred to, place the same amount of British capital in the hands or at least the command of the United States mercantile speculators as they were wont to enjoy up to the late crisis, by the toleration

of a bill system on the part of the Bank of England directors, which they ever and most properly have denied to their fellow-countrymen. . . The essence of Mr. Biddle's plan is, . . . to obtain a currency of American bills in this market, and another of British bills in the United States, the consideration for which will be American stock to a great extent. . . There is this distinction between the continental and projected Atlantic exchange system; the former for the most part is governed by commercial transactions; in the latter instance it would be governed, if successful, by all the rail road, canal, state improvement, loans and banking shares, good and bad, of the United States; thus British industry and capital are to be jeopardized upon a hazardous foreign paper system, to enable the United States Bank to withstand Van Buren's hard-money crusade.[58]

The Bank of England heartily disapproved of this new venture. When Jaudon arrived in London he approached this august financial institution with a view to having it carry the account of the Agency. This request was politely declined.

As soon as the Agency was established, Biddle endeavored to make it a channel for the export of American securities to London. If the sale of high-priced cotton would improve the international financial position of the United States the sale of high-priced pieces of paper would serve that purpose too. Throughout October and November he wrote to numerous state officials and private individuals calling their attention to the new channel for the foreign disposition of stocks and bonds.[59]

The Illinois 6 per cent Sterling bonds were the first important issue thus secured. Illinois was at this juncture embarking on an ambitious program of internal improvements, namely, the Illinois and Michigan Canal to connect Lake Michigan with the Illinois River. On December 20, 1837, a contract was drawn up between Irvine, Biddle, and Hill on the one hand and the Illinois Loan Commissioners on the other. The first two men each agreed to take $1,000,000 and the last named $100,000 worth of these bonds. Interest and principal were payable at the Agency in London. Illinois continued to market its bonds through the Bank but used other channels as well. On April 29, 1839, a second Illinois issue was taken by President Dunlap in his individual capacity but these soon became the property of the Bank. This last bond issue contained the interesting provision that payments to the state should be in the form of the Bank's ten-dollar notes which the state in turn agreed to distribute "under the direction of the said commissioners, on the public works of their state, in actual payments to those employed thereon."[60] This project for securing

state bonds salable for Sterling and paid for with the Bank's notes which would circulate at points sufficiently remote to discourage presentation for redemption turned out to be a bit too clever. By 1839, the Bank had become regrettably like some of its less reputable state bank competitors.

The Illinois bonds turned out to be unattractive to the London investors and were therefore used as collateral for loans. At the time of failure about $1,500,000 of these bonds were hypothecated with London bankers. In February 1841 they sold for about $70. Illinois later defaulted on interest payments for several years and during these years the bonds sold for an even lower figure.

The transactions in cotton through Bevan and Humphreys amounted to almost $9,000,000 and continued until about the time of Biddle's retirement as president of the Bank in March 1839. At that time the Bank turned over to the firm the sum of $800,000 which the Lippincott Committee interpreted as the profits on cotton. Biddle received half of the profits. Fortunately for these cotton speculations, the crop of 1838 was unexpectedly short and the cotton was marketable at a handsome profit.

A third and last series of cotton speculations, amounting to more than $3,200,000 was managed through S. V. S. Wilder of New York in 1839–1840. This venture turned out unprofitably owing partly to forced sales of cotton to meet the urgent needs for money by Jaudon in August 1839, and partly to the generally unfavorable turn of events in London in the latter part of this period. The net loss amounted to $631,390.97 half of which was paid by Biddle and half settled for by Cowperthwaite (cashier of the Bank) and S. V. S. Wilder.[61]

These cotton speculations received wide and unfavorable publicity in the American press. Gallatin, at a later date, expressed the opinion of reputable New York bankers when he characterized them as a "gross impropriety." The British press was hostile; the British mercantile community generally resentful; the Bank of England horrified.

The directors of the Bank of the United States denied any responsibility, in spite of the fact that at least three of them were directly involved in the transactions. Biddle made a point of publicly denying that the Bank had ever owned a bale of cotton. This was literally true. This was one of those statements by Biddle which Sumner must have had in mind when he said that they were to be viewed with suspicion. In fact, these transactions were

done on the initiative of the Bank's president, with the consent of the Bank's directors, allegedly with a view to the financial well-being of the country and the Bank, and with the aid of funds advanced by the Bank. The Bank probably never did own a bale of cotton but nevertheless it was in fact a cotton bank.

The motives for these speculations in cotton were probably mixed. The Lippincott Committee, which investigated the affairs of the Bank on the eve of its failure, suggested that Biddle's motives were those of private profit. On the other hand, Biddle in his public utterances took quite a different line. The situation was difficult and had "outgrown the capacity of mere politicians,"[62] he said. American solvency and American ability to pay its foreign debts required that the price of cotton be supported.

> The total prostration of all means and all credit in the south at the time placed the whole crop at the mercy of the foreign purchaser. The purchases made to provide bills for the bank, obliged these foreign purchasers to give something more like the real value to the southern produce; it made an actual difference in favor of the southern states of at least twenty or twenty-five millions, which gave them facilities in the discharge of their debts to the northern states, as well as to the bank itself.[63]

This was Biddle's apologia for the cotton deals made in one of his open letters to Clayton.

How wise was this program of price support for cotton? One thoughtful historian has characterized it as statesmanlike. Twentieth-century students of economics regard it with a certain sympathy. Why should America's ability to pay her foreign debts be at the mercy of a highly speculative market like the English cotton market? Or more generally, why should American prosperity be at the mercy of English finance? Biddle's attempt to manage the price of cotton, for the time being, appealed then and appeals now to the ideas of justice held by those who distrust the operations of the unfettered market and the working of unmanaged metallic currency standards. The wisdom of cotton price supports, then as now, turns out to be a matter that can only be decided when some very general ethical problems have been settled.

One thing is clear: the cotton price stabilization program was rash from the standpoint of bank management and solvency. It was rash because of the Bank's lack of knowledge for the performance of this specialized function; rash because even so large an institution as the Bank of the United States lacked the resources to

carry on such operations for a long time; rash because price supports were bound in the long run to induce cotton producers in India, Brazil, Egypt, and the East and West Indies to increase production in a way that would cost the Bank money; rash because it brought the Bank into conflict with the Bank of England which had no sympathy with this attempt to raise the price of cotton to Englishmen and no sympathy with financial novelties of any description. In the short run, this venture was not unsuccessful from the financial point of view. Even in this short period, however, Biddle's experience was such as to suggest that this policy was generally inexpedient for the Bank.

Having provided a breathing spell for the country through the issue of one-year bonds in Europe, and other measures, Biddle said it was now incumbent on the United States to pay its foreign debts by the natural process of remitting commodities and specie. There must be no defaults, said Biddle, for "we have worn, and eaten, and drunk the produce of their industry." He advised that there be no "extravagant loans or issues." Publicly he professed willingness to coöperate "with the government, with the government banks, with all the other banks, and with any other influences which can aid in that object." [64]

The record shows that during this period the Bank was conservative in making loans on personal security. Its holdings of domestic bills decreased by 63 per cent between May 1837 and August 1838. The exceptions were Mobile and Natchez which, as one might expect from the Bank's interest in cotton, did a lively business. The Bank's stock account increased by about $5,000,000 but the Bank appears to have resisted efforts to enlist its help in security speculations. To numerous inquiries about the possibility of securing loans from the Bank in order to purchase stocks at the current low prices the Bank replied that it did "not wish to increase . . . stock loans, or do anything but short business paper." [65] In October Biddle wrote: "The Bank . . . has so many people to carry — so many securities to nurse that its means have become much less flexible and disposable than we could wish — and at the same time we have to apply our funds mainly to the payment of our debts abroad." [66] A month later the policy was definitely stated that the Bank intended to make only short-term commercial loans until the debts were paid in Europe and until the stock market improved.[67]

Beginning October 1837 the Bank began to fall heavily and

continuously into debt to the state banks. This indebtedness increased rapidly and by the end of April 1838 amounted to about $5,000,000, the maximum indebtedness to state banks ever incurred by the Bank. Perhaps it was no accident that this took place just at the time that Nicholas Biddle was most extensively speculating in cotton. To this general indebtedness there was a significant exception: New York. At this critical point the branch of the Bank remained a creditor of the local institutions throughout 1837 and 1838. Beginning midsummer of 1838 the Bank resumed its extensive sale of post notes many of which were sold in the New York market. In July 1838 the Bank by these and other methods made itself a creditor of the New York banks for more than a million dollars. The New York banks resented this use of post notes to put them into debt to the Bank at a time when they had just returned to specie payments and when they were the only banks in the United States on a specie basis. Next month, August, the New York branch had claims on other banks for only a quarter of a million dollars. This reduction of balance due to it occurred when the Bank itself was returning to convertibility. By October the Bank had once again strengthened its claims on New York by increasing its total post note issues to about six and three quarters millions: in this month New York banks again owed the Bank over a million dollars. The Bank thus protected itself from the claims of its New York rivals at a time when generally speaking it was in debt to other banks. The generally prevailing indebtedness of the Bank to other state banks between October 1837 and October 1838 was one reason why Biddle counseled delay in returning to specie payments in 1838. When the Bank finally did take this step, one of the important means by which it put itself beyond the reach of its state bank rivals was by the sale of post notes.

Some developments in the foreign money market favored resumption in 1838. The tight money policy of the Bank of England was relaxed in February of that year when the Bank announced a reduction of the discount on bills of exchange and notes to 4 per cent. In March 1838 the Bank of England's specie reserves stood at £10,000,000 as compared with about £4,000,000 a year earlier. The London *Times* characterized Americans as "swindlers and unprincipled blackguards" and the Bank of England was, as we have seen, suspicious of American finance and especially of the Bank of the United States. Despite this, the market for Ameri-

can stocks was once more buoyant and American state and corporate security issues were sold there in unprecedented amounts. The net result of this was that the United States was able to import specie in excess of $14,000,000 in the fiscal year 1837–1838, a figure only slightly less than that for the banner year 1833–1834.

The Bank got out of debt on its short-term foreign accounts. Nevertheless, throughout the spring and early summer of 1838, Biddle counseled delay on resumption. Time was "the great restorer," said Biddle, "time to settle; time to adjust accounts; time to send the debtors' crops to market; time to dispose of his property with the least sacrifice; time to bring out his resources to pay his debts." [68] It began to look as if the Bank had succumbed to the charm of inconvertibility.

Under the leadership of Gallatin (now president of the National Bank of New York), Newbold, Lawrence, and other prominent New York bankers a meeting was held in New York to discuss resumption. In November the bankers thought it inexpedient to attempt specie payments because of the state of the foreign exchanges. A second meeting was held in the spring of the next year and in April the New York banks determined to pay specie on May 10. Representatives of the Philadelphia institution and the banks of the South and West were conspicuously absent from this meeting. The New York banks inaugurated a program of rigorous loan contraction, secured the assurances of the United States Treasury that it would do all that it could to support them at the critical resumption time,[69] and received coöperation from the Comptroller of New York State in the form of New York State bonds for disposal in London.[70] From overseas came assistance in the form of a loan of a million dollars from the Bank of England and a loan of an equal amount from Rothschilds and others.

The New York banks were the only ones that returned to specie payments in May. Even the Boston banks did not pay specie at this juncture, an action which Gallatin interpreted as meaning that they hated Van Buren more than they loved the gold standard. Not only were the Bank and its satellites uncooperative at this time but they probably made New York's task the more difficult by withholding cotton and cotton bills from the market.[71] The New York banks charged that the Bank was "manipulating" the foreign exchanges at this time. This was undoubtedly true. The debatable issue, and one which cannot be settled, is whether the manipulation was carried on in the sup-

posed interest of the Bank or with a view to damaging the Bank's New York rivals.

The course followed by New York has been characterized as "resolute action" and signalizing "a shifting of the country's financial center" from Philadelphia to New York.[72] The policy was resolute: it undoubtedly contributed to the subsequent growth in importance of New York as a financial center. Resumption cemented the ties between London and New York, a matter of importance. Both bankers and merchants gained because of the tight rein which the New York banks placed on credit. New York merchants collected bills due them while their Philadelphia competitors continued to accumulate additional accounts receivable which turned out to be of questionable value.[73] At the time that New York took this Spartan course, Biddle was not slow to suggest that it was due to the threat of statutory penalties for failure to resume; to what he called a "foolish law" rather than to fidelity to general principles.

On the eve of the resumption convention in New York, Biddle issued one of his open letters to J. Q. Adams.[74] The Bank, he said, was well supplied with cash but other banks were not so fortunate. It made common cause with the other banks to protect the prosperity of the country. He argued that early resumption was one of those rash acts that is a sign of weakness rather than of strength. More important, he argued that it would be folly to resume until the causes of the trouble were eliminated. These were, he said, the specie circular, the mismanagement of the government deposits, and the "clamor of the Executive against bank notes." He argued in behalf of the Bank that it had aided Pennsylvania to carry out its public improvements. It had not suffered "commercial capital to be prostrated." In short, it had kept its business and the business of the people of Pennsylvania "in comparative ease." This, he added, was "far more important than whether specie payments be resumed a few months sooner or later." He might have added: *auri sacra fames.*

Further, Biddle wrote:

> The credit system of the United States and the exclusive metallic system are now fairly in the field, face to face with each other. . . If the banks resume and are able, by sacrificing the community, to continue for a few months, it will be exclusively employed at the next elections to show that the schemes of the executive are not as destructive as they will prove hereafter. But if they resume and again are compelled to suspend, the executive

will rejoice in this new triumph, and they will fall in the midst of a universal outcry against their weakness. . . If they resume, one of two things will happen – their notes will not be received by the government or they will be received. If they are not received, the government, to the extent of the revenue, will force the holders of the notes to draw specie from the banks to be deposited with the collectors of the revenue. . . But if the notes are received, they will not, as formerly, be deposited in banks and drawn out again so as to enter into the circulation, . . . but they will be left in special deposite with the receivers. When warrants are drawn on these receivers they will call on banks for specie to pay the favored public creditor, selecting, of course, the bank on whom they will draw according to its servility or opposition to the executive, and thus placing them all under his control.

Admitting that at this season the foreign exchange rates were favorable to resumption, Biddle claimed that this circumstance was temporary. The favorable exchange rates were due to the severe credit restrictions in force in New York. Once resumption was general, he predicted that there was likelihood of an outflow of specie.

The suspension found us with a heavy debt to the banks – not less probably than five hundred millions – with large balances from the southern and western states to the Atlantic cities, and with a very considerable debt to Europe. All parties were willing to pay; almost all were able to pay; but great forbearance and great indulgence were necessary from the creditor, and above all, after such a convulsion, the great restorer was time; time to settle; time to adjust accounts; time to send debtors' crops to market; time to dispose of his property with the least sacrifice; time to bring out his resources to pay his debts. . . It was in this spirit that the Bank of the United States has not diminished ten per cent. of its loans – while it added about three millions to its specie – and will have given the necessary facilities for shipping the crops of the south and west to the amount of probably fifteen or twenty millions of dollars; placing its own confidential agent in England to protect the great commercial and pecuniary interests of the country.

We owe a large debt to France and England. Why should we destroy the value of our only means of paying it? We can pay it only in *cash*, or *produce*, or *stocks*. As to *cash* – this debt was contracted in an abundant currency. By this artificial scarcity of money we are obliged to pay in a currency more valuable by one half or one third. Even at that rate we can neither borrow the money nor raise it by sales except by ruinous sacrifice. We then may pay it in *produce* or in *stocks*, but the same scarcity sinks the value of both. A debt contracted when cotton was at twenty cents, we have to pay when cotton is ten cents a pound. If we propose to pay it in stocks, these too have sunk perhaps twenty-five per cent on their price last year. . . What the foreign creditor wants is payment – payment of the debt, not in a better currency, but in an equal currency, or if necessary, in an inferior currency, because he can better support a high rate of remittance than a reduced or postponed payment.

> The spring is, moreover, the season when the credits given for the shipments of Southern and Western produce, are maturing at the North; and the crop from which reimbursements are to come, remains unsold in Europe. The spring, too, is the time when the Western business has brought from the interior the notes of the Atlantic banks, when the circulation presses more upon them than at any other period, and when specie is wanted for the trade to China and India, making that time particularly inappropriate for the resumption.

And Biddle concluded:

> The banks should remain exactly as they are – prepared to resume, but not yet resuming.
>
> They should begin, as the Bank of England did, under similar circumstances, by paying the small notes, so as to restore coin to all the minor channels of circulation – but not make any general resumption until they ascertain what course the government will pursue, employing in the meantime, their whole power to forward the crops to market. The American banks should do in short what the American army did at New Orleans, stand fast behind their cotton bales until the enemy has left the country.[75]

What Biddle did not point out, and what he dared not reveal to the public, was the fact that the solvency of the Bank of the United States was tied up with solvency of the great debtor areas of the United States. In his public utterances he displayed concern for the debtors and the disastrous effects on them of the inevitable deflation if resumption of the specie payments were attempted at once. But the solvency of the Bank was dependent on the solvency of debtor interests. The ability of the institutions in the South and West to pay their obligations to the Bank and the ability of the Bank to collect its large holdings of domestic exchange would have been impaired by sharply deflationary policies. The marketability of the state bonds and corporate stocks in which the Bank now had an extensive interest was contingent on the continued prosperity of states and business. In May 1838 Biddle with extensive aid from the Bank was withholding cotton from the Liverpool market and drastic price deflation in the United States might easily force down the price of cotton there. Biddle talked of protecting the public interest at this juncture: he had some compelling private interests at stake as well.

Nevertheless, resumption could not be long delayed. The governor of Pennsylvania proclaimed August 13 as the date by which a return to specie payments must be accomplished, despite Biddle's efforts at Harrisburg to the contrary. Moreover, Biddle's favorite pretext for inconvertibility no longer existed: Congress,

by joint resolution, revoked the specie circular on May 31. During the summer of 1838 the Bank increased its specie from less than four millions to more than seven. On the 13th, it returned to full specie convertibility and it was followed by the banks of Delaware, Maryland, Missouri, and Ohio. Southern banks, with the exception of Mississippi, Alabama, Louisiana, and perhaps one or two others, signified their intention to pay specie around the first of the year.

There was considerable activity in the sale of stocks in London after the beginning of 1838. At first the market was reluctant to take them, for it had already absorbed more than $100,000,000 worth.[76] But in March, "the sale of American securities in European markets . . . notwithstanding the malign influence of a hostile press, . . . [was] proceeding gradually and satisfactorily," reported the *Circular to Bankers*.[77] The Bank of England had reduced the bank rate from 5 per cent to 4 on February 15, and money was easier. By November of 1838, the following were listed as in current negotiation: [78]

| | |
|---|---|
| Mississippi | £1,000,000 |
| Tennessee | 150,000 |
| Kentucky | 150,000 |
| Alabama | 500,000 |
| Florida | 300,000 |
| South Carolina | 600,000 |
| Missouri | 150,000 |
| Michigan | 200,000 |
| Indiana | 150,000 |
| Illinois | 300,000 |
| Louisiana | 300,000 |
| Maryland | 400,000 |
| Massachusetts | 100,000 |
| Other | 350,000 |
| | £4,650,000 |
| Miscellaneous (City, Corporation, Railroad and Bank Stock) | £1,000,000 |

These operations in stocks kept the rate of foreign exchange down. They also provided the funds which made it possible for the Bank of the United States and other cotton banks to bide their time in the matter of cotton sales. They made possible large specie imports. In the summer of 1838, the banks of both Boston and Philadelphia were said to be discounting liberally.

### Section III. *August 13, 1838 to October 9, 1839 – fourteen months of specie payments*

Following the general return to specie payments in August 1838 there was a period of moderate prosperity. Many people believed that America's financial troubles were over. They had still to learn that maintenance of convertibility depends on the state of affairs in the international trade and capital markets. In the spring of the next year, trade was brisk. Domestic demand for imported goods was large and imports expanded. Production, which had not been seriously interrupted by the banking crisis of 1837, continued on its upward course. Investment in internal improvements was at a high level. Once more the investors in foreign countries bought American bonds in large quantities.

The cotton crop of 1838 was short and once more the price began to rise. Between August 1838 and April 1839 cotton went up from 6½*d.* to 9¼*d.* a pound in the English market. Early in 1839 flour was selling for $9.00 a barrel, for the foreign wheat crop was poor. This year the American wheat harvest was a good one. Throughout this entire interval the index number of prices of American export products was above the index number of prices of imports, indicating that the terms of international trade were favorable to Americans.

Once again the federal government embarrassed the Bank. Congress authorized the Treasury to sell the bonds given to it in settlement for the stock in the old Bank. On July 9, 1838, about a month before the resumption of specie payments, Secretary Woodbury inquired of Rothschilds regarding the sale in London of the bonds due in 1838 and 1839.[79] This would have been financially embarrassing to the Bank, heavily in debt as it was in London at this juncture. To forestall this, the Bank offered to pay in advance the $2,000,000 bond due in September 1839. The Treasury was given a balance in the Bank which in December amounted to almost $2,500,000. Biddle believed that he had an understanding with the Secretary of the Treasury whereby a substantial portion of this balance should be withdrawn in the form of the Bank's notes. These notes were to be paid to the Cherokees who were, at that time, being removed from their ancestral lands. He confidently expected that notes so disposed of would not soon return to the Bank for conversion into specie. In this plan Biddle was disappointed.[80] The Treasury withdrew its entire balance between December 1838 and August 1839. In

March alone its demands amounted to $800,000. The Bank's specie decreased by about three and six-tenths millions in this interval. Government withdrawals thus contributed to about two-thirds of the loss of specie by the Bank at this critical juncture.

The general financial situation was an uneasy one. Interest rates on short-term loans were high. In Philadelphia the out-of-door rate changed from 1 to 1½ per cent a month. Some specie was being exported from the United States, but, even more portentous, the English money market began to tighten in the early months of 1839.

Shortly after the return to specie payments in Philadelphia, the Bank extended aid to southern banks with a view to helping them return to specie payments in the early part of 1839. Loans estimated at one and a half millions were made to the Planters' Bank of Mississippi, the Vicksburg Bank, and the Agricultural Bank of Mississippi. It was anticipated that these loans would be paid in bills drawn on cotton shipments,[81] a means of payment which these banks would have available for they were large cotton shippers.

The largest financial commitment to the Gulf states occurred only three days after the Bank had resumed convertibility. On August 15, commissioners acting for the Union Bank of Mississippi entered into negotiation with Biddle for the disposal of $5,000,000 worth of Mississippi bonds — Mississippi's contribution to the capital of the Union Bank. Biddle replied in a letter dated August 16 indicating acceptance. Owing to the fact that he was about to go to New York City, he was unable even to talk with the commissioners prior to his departure. The contract was executed on the 18th in Biddle's name accompanied by a guarantee of performance by the Bank over the name of Dunlap, who was then the assistant cashier.[82] Biddle hoped not only to reap a profit for the Bank but also to assist Mississippi to return to specie payments and to ease the financial situation in the United States generally by providing the Agency in London with another large bond issue to sell. From this he anticipated "fair weather and plain sailing." [83] The actual result of this hasty and ill-considered decision was quite the reverse: the bonds proved unsalable and impaired the Bank's liquidity. In the long run the Bank and its creditors lost because of the default by the State of Mississippi.

In the last days of his presidency, Biddle made another unfortunate commitment. Over the names of Biddle and Cowper-

thwaite a guarantee was given for the unsold portion of the Michigan 6's, amounting to over three millions, on January 1839. The Bank was committed to paying quarterly installments of about a quarter of a million dollars beginning July 1839. This contract was made as the result of the connection between the Bank and the Morris Canal and Banking Company. The Bank had acquired a one-fourth interest in this corporation through the purchase of 9613 shares in 1837. This New Jersey corporation was originally empowered to build a canal and to do the necessary banking incident to this. Through successive amendments to its charter it had acquired an impressive array of financial powers supplemental to those connected with building a canal. A series of statutes conferred on it the power to issue post notes, buy and sell bonds and stocks of "bodies corporate and politic," and issue its own stocks in generous amounts. The company maintained two offices, one in Jersey City and one at 45 William Street in New York. Biddle's old friend General Cadwalader was on the board of directors as was A. Lardner, who became acting cashier of the Bank in its last days. Edward R. Biddle, an exchange broker in Philadelphia and a second cousin of the Bank's president, became a director in 1837 about the time the Bank acquired about a quarter interest in this $4,000,000 company. On January 1, 1839, Edward R. Biddle became president of the New Jersey corporation. As his cousin Nicholas observed, both the Bank and the family had a large interest in the Morris Canal.[84]

Edward R. Biddle was speculating heavily in various stocks. From him and through him the Bank acquired many corporate issues as well as Indiana and probably Texas bonds. Throughout 1838 and 1839 both he and the Canal Company were in constant financial straits and consequently Nicholas Biddle received calls for help of increasing urgency from them. One important result of this situation was the Bank's guarantee and ultimate acquisition of the Michigan 6's from this company which was in fact a security affiliate of the Bank.[85] Biddle could hardly have been so optimistic as to think that these bonds could be sold at the time that the commitment was made. Their fate, like other issues of state bonds, was to be lodged in the hands of the Agency in London and later to be collateral for loans in London. When the Bank failed, about $3,500,000 of these were hypothecated in Europe. In 1841, the Bank still owed Michigan over $1,700,000 of the unfulfilled guarantee.

Through this same company the Bank also acquired large holdings of Indiana 5's. With an extensive plan for internal improvements in view, the Commissioners of the Indiana Loan Fund, after making several unsuccessful approaches to New York bankers, finally arranged for the Morris Canal and Banking Company to be its agent. During a three-year period almost $6,000,000 of the Indiana 5's were delivered to the Canal Company and for most of them the state received payment.[86] Under the terms of the agreement, the Canal Company was responsible for interest payments on these issues. In July 1839 the Canal Company was so hard pressed financially that it was unable to arrange for these interest payments. The Commissioners of the Loan Fund visited New York to press their claims on the Company. These were satisfied by numerous pieces of paper including a certificate of deposit in the American Trust and Banking Company and a quantity of post notes of the Canal Company. A part of the flood of post notes which inundated New York in the latter part of 1839 had its origin in the needs of the Canal Company.

The Bank acquired an unknown quantity of Indiana 5's.[87] By 1841 it had hypothecated about three-quarters of a million of these bonds in Europe, at which time they sold in the open market for about $65. Under the circumstances the Bank could do nothing but use them for collateral for loans.

The bankers of New Orleans were reassured by the Bank. Aid, in form of issues of the Bank, would be sent to New Orleans to be used "freely," "not only in the immediate business of the bank, but whenever they can be made to contribute to the defence of the banks of New Orleans," [88] said Biddle.

With specie reserves of only $4,200,000 at the end of 1838 it was beginning to look as if the Bank was not in a position to help others and might soon be in need of help itself. Even the increase in its issues of post notes, which now sold at a discount of 1½ per cent a month, was not sufficient to prevent the loss of specie. Western merchants, finding that prices in New York were lower than in Philadelphia, made their purchases in New York with Philadelphia money, and this money returned promptly to Philadelphia for redemption.[89] In September the New York Office was urged to push the sale of post notes in New York to absorb the floating circulation of maturing earlier issues.[90] By January of the next year, balances were running against the Bank both

in New York and Philadelphia. The Bank foresaw that it would soon be obliged to make large advances to Pennsylvania as stipulated in its charter. The Mississippi bonds were inactive, raising funds by the sale of foreign exchange seemed inadvisable, therefore another issue of post notes was sent to New York to relieve the situation.[91]

Toward the end of 1838, the Bank issued a notice "requiring 15 per cent to be paid on all stock notes and the same at the end of every ninety days, until the payments are all made."[92] In general, this policy seems not to have been carried out effectively. However, in the month of November 1838 a reduction of about $1,000,000 was effected, and again in February 1839 a reduction of $2,000,000 occurred.

At the end of March 1839 Nicholas Biddle resigned from the presidency and board of directors and his place was taken by Thomas Dunlap. This step created a sensation in the money market; but it did not mean that Biddle would not continue to be an important figure in the affairs of the Bank. The ostensible ground for the resignation was the desire to be relieved from the "confinement and slavery" of the position, and the fact that this was an opportune time in view of the fact that the legislature had adjourned "without making war upon the Bank, — thus leaving it at peace with all the world."[93] T. W. Ward thought that Biddle resigned because he saw "no end to his labors" and took advantage of a temporary improvement in the affairs of the Bank to escape from a difficult situation. Failing health may have contributed to this decision to resign.

Dunlap, the new president, had been an attorney. He was related to Nicholas Biddle by marriage to Thomas Biddle's sister. Prior to becoming president he had been second assistant cashier of the Bank. T. W. Ward characterized him as a "lawyer of second rate standing . . . worthy, upright, and indolent." Through him, Ward thought, the influence of Nicholas Biddle would be perpetuated.[94]

During 1839 the Bank's specie reserves declined steadily from slightly more than $4,000,000 at the beginning to about $1,500,000 by October 1. Because of this loss of specie, the Bank had to resort to heroic measures on both the domestic and foreign fronts.

Some of the Bank's difficulties in the fall of 1839 arose out of long-standing commercial and banking practices. These, according to the *New York Express*, originated in 1837.

> In the summer and spring of 1837, when this city was prostrate, when our banks curtailed their business, and when over five hundred failures took place, many of whom were sacrificed by the injudicious course of a few of our banks, Philadelphia was not comparatively pressed. The banks there, and particularly the United States bank, carried their merchants through.
>
> The consequence was, that Philadelphia took a very large portion of trade from New York. This that city could do, because the banks there took freely the southern and western notes given for goods. One great cause of their pressure now, arises from the fact that the banks can no longer collect, nor negotiate this paper taken for goods, and one other reason may be added, while New York has been standing comparatively still, and has been collecting steadily, the Philadelphia merchants have, in many instances, trusted these very houses, whereby they have been enabled to pay the New Yorkers their old debts.
>
> This course of trade has cramped the Philadelphia merchants to such a degree, that the banks, to sustain them, have loaned them their own post notes, having a year or less to run, in order to save the merchants. . . These post notes cannot be cashed in Philadelphia.
>
> They are consequently thrown into the Baltimore, New York and Boston markets, where the confidence in them is so great, that an enormous amount of money is raised. . . This, no doubt, is one great cause of the pressure here, and in Boston.[95]

The Bank's post note issues increased from about $5,500,000 on June 1 to over $9,000,000 on September 30, 1839. The Bank's dire need for specie for domestic purposes as well as for export to the Agency in London was the reason for this record-breaking performance. Even so, specie reserves fluctuated around the dangerously low level of $1,500,000 to $2,000,000. The post notes made the Bank as a whole a creditor of the state banks: the Philadelphia office became a creditor to the extent of 4 or 5 millions. Significantly enough, in New York the branch was less strongly placed. There the Bank was slightly in debt to its competitors. The sale of post notes therefore created an illusory appearance of strength. It gave the Bank large claims on weak banks and barely sufficed to keep it from being subject to large demands by strong institutions. Moreover, the interest cost of these operations was high and, equally important, the animosity of the New York and Boston banks was further aroused.

The Bank also secured cash by the sale of foreign bills of exchange in large amounts in New York. Both its own bills on the Agency in London and on Hottinguer and Company in Paris. Bills of exchange drawn by the Girard Bank on Morrison, Cryder and Company were also thrown into the market. Some were sold in Boston.

The effect of these sales of foreign exchange and of post notes in August and September was an increase in the Bank's specie of only about $700,000. At the offices in New York and Philadelphia each office augmented its specie by approximately $400,000. The effect on the Bank's specie was insignificant. These sales also changed the Bank's relations with other banks: in New York they reduced its debts *to* other banks and, in Philadelphia, they increased the item of due *from* banks to more than $3,000,000.

Internationally as well as domestically, this sale of foreign bills was a serious error. In September, while Jaudon was negotiating to raise money in Europe, Hottinguer and Company dishonored the Bank's bills of exchange for 5,500,000 francs. As early as May 1839 the French firm had expressed itself as "surprised and pained by the heavy amount of drafts of the bank." [96] In the meantime, the Bank agreed not to draw again beyond the 7,000,000-franc limit set by Hottinguer. The Bank did remit cotton (which was unsalable) and United States Bank stock. In September, in spite of the previous warning, the Bank overdrew again. Had the bills been accepted, the Bank's total debt to Hottinguer and Company would have amounted to 14,000,000 francs. The French firm adhered to its earlier announced policy and dishonored the bills drawn in this September crisis period. A few days later (September 23), Rothschilds of Paris came forward and declared their readiness to accept the drafts. Nevertheless, great damage had been done to the Bank in Paris, in London, and in the United States. Hottinguer and Company wrote thus to Baring Brothers and Company:

> It is evident to us that on receipt of Jaudon's advices by the Liverpool, the administration of the Bank had arrived at the conclusion that they must either suspend specie payments again at home, or let him stop in London, or run the imminent risk of being protested by us, and that the last evil was the least in the choice. We cannot otherwise at all account for such reckless conduct after the threat held out by us only 3 months back to refuse the drafts, and the solemn promise to abstain from any new ones.[97]

Biddle was unsparing in his criticism of the conduct of the Bank at this juncture. In his opinion, Hottinguer and Company could not have done otherwise than dishonor the drafts which he described as immense in amount and drawn "without having a dollar of funds in their hands — without having any authority to draw for a dollar — without a line of explanation as to the nature and extent of these unprecedented drafts, and without even the

usual commercial notice that such bills had been drawn." These were the "cause of the disasters of the Bank." [98] Cowperthwaite, cashier at Philadelphia, explained the conduct of the Bank by saying that the "storm was ready to burst; but, instead of meeting its full force at once, it was deemed best to make it fall first on the banks of New York." [99] T. W. Ward characterized this as a "deliberate and avowed plan to break New York and Boston." [100] Prime, Ward and King were probably on safer grounds in characterizing this course as "vicious" [101] but necessary if the Bank was to avoid failure.

The year 1839 saw a financial crisis in both England and the United States. Bullion in the Bank of England decreased from £9,336,000 to £2,525,000 between January and October of that year. Because of the crop failure of 1838, large payments to the Continent were necessary for food. From the other side of the Channel, the demand for British textiles was falling off. German, Russian, and other merchants were reluctant to make large purchases because they thought prices were too high. In this connection, Americans came in for scathing denunciation from the British press. *John Bull* said the cause of this was the Americans who were keeping the price of cotton "high with waste-paper dollars." Money was short on the Continent too at this time, and demands on London in the form of finance bills were heavy. On February 1, therefore, the Bank of England advanced the buying rate of gold from £3–17–10½ to £3–18–0. On May 16, it advanced its discount rate on bills of exchange and notes to 5 per cent, on June 20 to 5½ per cent, and on August 1 to 6 per cent. At the time of the rate increase in June (and perhaps at other times) the Bank of England let it be known that it would not discount bills coming to it through the medium of the joint-stock banks or bills arising out of the speculations going on in cotton and corn. For the second time in two years, the Bank of England took direct action against credit to Americans in London.

The situation in London was sufficiently critical at this juncture so that the Bank of England arranged with Baring Brothers and Company and three other firms to draw on Paris for an amount between two and four million pounds to prevent the export of bullion.[102] By August, stock exchange loans were made at 8 and 9 per cent. London bankers had little money at call with the bill brokers.[103]

Americans were blamed by English newspapers and publicists

for the loss of gold. Because of the heavy sales of American stocks in the year 1838 Americans had secured almost $9,000,000 (net) from England. By 1838–1839, however, the tide had turned and Americans sent about $750,000 (net) to England. The widely known opinions of the men in the bank parlors about the propriety of what the Americans were doing as well as the action which the Bank took had something to do with this reversal of the movements of specie. In December 1838, the Bank was rumored to be rejecting American bills founded on corn, cotton and stocks.[104] By October it was clear just how important the Bank of England's policies were for American business.

Rumor aggravated Jaudon's difficulties in securing loans at this critical time. It was reported that the Bank of the United States had failed. The banks of Mississippi were reported to have failed, a story which did not contribute to the salability of the Mississippi stock which the Bank had sent to Jaudon. In the midst of what was called a "panic crisis" the news arrived of the dishonor of bills for 5,500,000 francs drawn by the Bank on Hottinguer and Company.

Jaudon was confronted with the problem of meeting large and currently maturing bonds of the Bank as well as paying the Bank's drafts. Borrowing was difficult and stocks were almost unsalable. On August 13, 1839 his maturing obligations were estimated as follows:

| | |
|---|---|
| Acceptances due from 26th to 31st of August | £ 497,512 |
| Acceptances due from 2nd to 7th of September | 71,957 |
| Bonds falling due 1st to 4th of September | 174,000 |
| | £ 743,469 |
| Acceptances due from 9 to 14th of September | £ 70,483 |
| Acceptances due from 16th to 21st of September | 58,310 |
| Acceptances due from 23rd to 28th of September | 300,779 |
| Acceptances due from 30th to 5th of October | 59,131 |
| Bonds | 231,000 |
| | £ 719,703 |
| Besides these, there were: | |
| Loans repayable | £ 80,000 |
| An operation with Rothschilds which may be carried on three months longer | 100,000 |
| | £ 180,000 |
| Total | £1,643,172 |

In desperation, Jaudon appealed in September to the Bank of England for a thirty-day loan with American state bonds as col-

lateral. As might have been anticipated, the appeal was refused. Jaudon at this time also turned to the Bank's old ally, Baring Brothers and Company. He discussed the possibility of giving up the Agency and making Baring Brothers the Bank's London agent once more. At first the English firm seemed interested, but ultimately they declined this suggestion because of the Bank's irresponsible and unbusinesslike course. What Baring Brothers did was to render substantial financial aid to the hard-pressed Jaudon. Their schedule of commitments in this crisis was impressive. It was as follows:[105]

| | | |
|---|---|---|
| June 1, 1839 | Loan to Jaudon (6 months) | £200,000 |
| August 1, 1839 | Guaranteed Bank bonds for the Bank (6 months) | 150,000 |
| August 26, 1839 | Advanced on unsalable stocks | 100,000 |
| October 1839 | Subscribed to the £800,000 loan managed by Denison & Co. | 100,000 |
| November 11, 1839 | Loaned Mr. Jaudon | 50,000 |
| November 30, 1839 | Renewed Jaudon's note of hand for | 200,000 |
| December 1839 | Guaranteed part of the £900,000 Rothschild loan to the Bank | 30,000 |

Three large foreign loans temporarily solved Jaudon's problem in the latter part of 1839. In October a loan of £800,000 was secured through Denisons in England. It ran, part for 18 and the rest for 36 months, bore a nominal rate of of interest of 7¾ and 8 per cent, actually yielded to the purchasers of the bonds about 10 per cent, was secured by $2,662,000 of Pennsylvania 5's, $900,000 of Michigan 6's, and $888,000 of Mississippi 5's. A month later a loan for £900,000 was secured through Rothschilds. One half of this matured on October 15, 1841 and the other half a year later. The nominal rate of interest was 6 per cent. Pledged as security were $1,325,906 of Pennsylvania 5's, $1,570,000 of Mississippi 5's, $316,000 of Indiana 5's, $108,000 of Illinois Sterling 6's, $250,000 of Illinois dollar 6's, and $1,431,000 of Michigan Sterling 6's. After about four months of negotiation, Jaudon completed arrangements in January 1840 for a loan of 10,000,000 guilders through Hope and Company of Amsterdam. This 5 per cent loan was secured by $290,000 of Pennsylvania 5's, $200,000 of Maryland 5's, $558,000 of Mississippi 5's, $750,000 of Illinois 6's, and $952,000 of Michigan 6's. The loan secured through Rothschilds was sold in France and Holland. The loan made through Hope and Company was largely taken in Holland.[106] Jaudon's adroit financial diplomacy

was thus instrumental in enabling the Bank to draw on the capital resources of the Continent. He performed a feat which was quite extraordinary in view of the recent conduct of the Bank and in view of the state of the European money market. In so doing, he temporarily aided the Bank of the United States and probably, to a lesser degree, aided the London financiers.

On October 9, 1839, the Bank of the United States suspended specie payments for the second time. There had been very large drafts on the Bank from New York on the 8th. That evening a meeting of the officers and directors of the Bank was held to consider the situation. Unfortunately, news of this meeting reached the public and next day there was a run on the Bank. On this same day, the other banks of Philadelphia suspended and this was followed by widespread but by no means universal suspension throughout the country. New England, with the exception of Rhode Island, escaped and so did New York. About a third of the banks of Ohio continued to pay specie. But elsewhere, with a few scattered exceptions, suspension, partial suspension, or admitted failure prevailed.[107]

This step was followed by a general feeling of relief in some quarters. New York and Boston banks felt that they need fear no further demands on their specie reserves through the sale of the post notes of the Bank and its satellites. In some quarters the commercial world felt that it would now be spared those much feared "ruinous sacrifices" of property which the attempt to maintain specie payments would have entailed. In the cotton states and in New Orleans in particular these events were not of so favorable an import. It became difficult to negotiate bills of exchange and the cotton market stagnated. The Louisiana banks seem to have followed a policy of great caution in making loans and business was hampered by that. In numerous quarters people began to wonder if this did not mean the end of the Bank, an event that some regarded as desirable.

Nicholas Biddle emerged from his semiretirement and publicly defended the Bank. The choice before it had been either "to force the community to pay immediately its debts to the Bank by ruinous sacrifices of its property in order to collect specie for shipment to England, or else to resort to a temporary suspension of specie payments till half the banks and the community would have time to recover from the effects of these foreign troubles."[108] The resumption of 1838 had been premature, he said. The banks

of Philadelphia had given every aid possible to the banks of the southern and southwestern states to assist with resumption but these banks could not meet the general demand for specie. Their weakness, in turn, weakened the banks of the Atlantic seaboard. The resumption had been premature for another reason. It had stimulated internal improvements and this had led to an increase in the American debt abroad. He attributed the financial stringency in England to the bad weather followed by poor crops which brought about heavy demands on the gold reserves of the Bank of England. The result was that American stocks became unsalable there. Possibly at the suggestion of Biddle, the *Philadelphia Gazette* said that the money crisis in England was due to the outbreak of the Opium War. In short, the public was told that the causes of the crisis were mainly international and the course taken by the Bank was the lesser of two evils.

The events of 1839 were viewed far less charitably in Boston, New York, and Washington. In these quarters the blame was placed squarely on the Bank. The root of the trouble was thought to have been the facilities which the Bank provided for the sale of bonds. Large sales of foreign exchange had been made possible because of this. Heavy importations of merchandise had been encouraged, wages and incomes had increased because of the employment of men and resources on internal improvements, resources had been diverted from the production of goods for export, and the result was that the United States was more heavily in debt to foreigners than ever before in its history. Interest payments on the debt alone were estimated at from ten to twelve millions. The Bank's cotton operations came in for widespread criticism. The critics said that Biddle's unwillingness to curtail credit and deflate prices had merely postponed to 1839 the business readjustment which should have occurred in 1837.

Opinion was widespread that the assets of the Bank had been seriously impaired. A few hours after the Bank stopped payments its good repute was still further injured by the arrival of the news of the dishonor of the Bank's bills on Hottinguer and Company. In the market, these events were signalized by a decline in the value of the Bank's stock from more than \$100 a share to about \$70. Except for a brief revival early in 1840, the price of the Bank's stock continued to fall steadily and at the end of a year and a half was quoted at about \$3.00 a share.

Section IV. *October 9, 1839 to January 15, 1841*

The commercial crisis of 1839 was in many ways more serious than the one of two years before. In the interval between October 1839 and the following May, the index number of prices of export goods fell from 106 to 74. In the same interval cotton prices fell from about thirteen cents a pound to about eight and a half. In spite of these price changes the total value of merchandise exports actually increased. Americans paid some, if not all, of their accumulated foreign debt and paid it on unfavorable terms. As was usual under circumstances of this sort, the value of merchandise imports declined. Another symptom of depression was the sale of American ships to foreigners. Canal commissioners and engineers in charge of these projects expressed apprehension lest the breakdown of finance force them to cease operations before construction had been completed. Domestic trade was dull. In some lines of manufacture and in most agricultural pursuits, on the other hand, production continued to expand at almost the normal rate, as the charts in Chapter II make clear.

The money markets of New England and New York were "right & quiet," said T. W. Ward. Throughout most of 1840 loans were not difficult to secure nor were new rates of interest high in these areas. The exception occurred toward the close of the year when the Bank of the United States, having secured financial aid in New York and Boston, made demands on these money markets. In Europe, also, there was a perceptible tightening of the money market around the end of the year. At the other extreme stood the financial situation in New Orleans and Mobile. Business was "paralyzed by the scarcity of money, the absence of a speculative demand and the extremely low rates obtaining for western produce." [109] The banks of Philadelphia and of Pennsylvania generally were in an "awkward state," said Ward. They seemed to be "doing nothing right." An expiatory view of crises and depressions was suggested by his conclusion that "Time and suffering must bring the South & West to their senses." [110]

Some American stocks were sold in Europe in 1840 but the amount sold was small as compared with previous years and the stocks were disposed of with increasing difficulty. As late as October, Massachusetts bonds were reported to have sold well, a result doubtless of the moderation with which that commonwealth had issued securities and of its reputation for solvency. Illinois

turned over about $1,000,000 of its Sterling bonds to Baring Brothers and Company. Ohio disposed of about $400,000 of its bonds. But these were the exception. Maryland bonds were reported to be practically unsalable. The market for Mississippi bonds almost vanished. In March, the governor of Mississippi had warned prospective purchasers that the state would not recognize a transfer of these bonds as valid if it took place below par. On July 13, the charter of the Union Bank, in whose behalf these bonds were issued, it will be recalled, was declared forfeit for nonpayment of specie. The market for state bonds was also adversely affected by the growing diplomatic tension between Great Britain and the United States over the determination of the boundary line between Maine and Canada. Politics, as well as economic history, were involved in the drying up of foreign sources of capital in 1840.

An "administration" for American stocks was attempted in Paris through the intercession of Mr. Thomas Baring.[111] In that center money was more plentiful than in London and it was hoped that this device might improve the salability of American stocks there. At this juncture, Baring Brothers thought that the Bank should not be destroyed: they also thought that it needed new and more competent management. None knew better than this firm that the survival of the Bank was dependent on a continuing market for American stocks in Europe.

In spite of the best efforts of Americans and their friends, the foreign money market was unfavorable to the Bank. In February 1840, the Bank's own bond issues sold at a price which meant that the Bank was paying 10 per cent for money in London. On his return from Europe, Daniel Webster reported that he was disheartened by the savage attacks on American financial integrity in the foreign press.

The difficulties in London were much more fundamental than vituperation. The loss of bullion suffered by the Bank of England in 1839 was not speedily repaired, as it had been in the earlier crisis. Not until 1842 was there a strongly marked upward trend in the Bank of England's metallic reserves. During the last quarter of 1840, a period of critical importance for American finance, the prevailing rate of discount on bills was 6 per cent. In February 1841 stock exchange loans were quoted at from 6 to 10 per cent and money was said to be exceedingly scarce. In the middle of the year 1840, the money market eased: as the year drew to a close

the state of the corn trade and the situation in the United States and in France forced the Bank of England to restrict credit once more.

On April 3, 1840, the Pennsylvania legislature stipulated that banks must resume specie payments by January 15, 1841 on penalty of forfeiture of charter. "The condition of the U. S. Bank is a matter of more severe criticism, among its neighboring Banks – than heretofore – and its influence in holding the currency in continuous derangement, is seriously deprecated,"[112] said Prime, Ward and King. The officers were regarded as "poor stuff" and there was widespread doubt that the Bank would ever reopen. At the Treasury, too, the Bank was in trouble. The fourth bond to the United States government for its share in the old bank fell due in September 1840 but was not paid promptly. Such payments as were made came in driblets. The Treasury sent a series of dunning letters to the Bank. With its most remorseless creditor the Bank was thus in difficulties.[113]

Estimated losses of the Bank received unfavorable publicity.[114] Mr. Jaudon was reported to have estimated them as follows on November 15:

| | |
|---|---|
| Losses on bills discounted on other than personal security .. | $ 475,077.65 |
| Losses on Stock account ........ | 2,833,531.10 |
| Losses on bills discounted ........ | 1,000,000.00 |
| Losses on real estate ........ | 300,000.00 |
| Total ........ | $4,608,608.75 |

The Bank's loans and discounts were steadily contracted from November 1839 to January 1841. On the first date they were about $39,000,000; on the latter only a little more than $21,000,000. On June 16, the board of directors validated what seems to have been their policy for some months. The directors ordered that

> no loans now running to maturity, shall be renewed, (unless originally made with an agreement or understanding to that effect); and that upon all loans, whether on accommodation paper, upon stock, or upon other security, a payment of at least ten per cent. will be required, when due, and the balance to be settled by notes (not renewable) at from one to seven months.[115]

Specie reserves increased slowly from $1,700,000 to $2,700,000.

In June the directors reduced the salaries of the officers and thereby effected a saving of about $40,000 a year. Joseph Cowperthwaite resigned as cashier and A. Lardner, earlier associated with the Morris Canal and Banking Company, became acting cashier.

Samuel Jaudon, too, began to disassociate himself from the Bank. For some time he had wanted to terminate his connection with the Agency. By October 1840 the Agency had ceased to be active and James Morrison and Sons became the Bank's London agent.

Suits were brought against the Bank to force it to redeem its notes and post notes in specie. Rather than fight in court, the Bank capitulated and in many cases paid specie.

An undignified wrangle with Baring Brothers and Company got into the press. The English firm was accused, possibly at the instigation of some of the Bank's officers, of duplicity and indiscretion in revealing confidential information harmful to the Bank in the 1839 crisis. Jaudon denied that this was so as also did Baring Brothers. At this time Joshua Bates commented as follows:

> That Bank has been so long a borrowing bank that absorbed all the money in your principal cities, that once out of the money market merchants would find relief at the same time we have done everything in our power to sustain Mr. Jaudon from a conviction that his stoppage would increase the evil, but we always supposed the heavy drafts on him were made in order to keep themselves strong at home trusting to its friends here to aid Jaudon in meeting his liabilities. To find that after all these drawings the Bank is weak at home is too bad because the drafts must have been made with a full knowledge that Mr. Jaudon had been assisted and could only get along by further assistance. . . . The conduct of this Bank has been the main cause of the difficulties of the Bank of England, which could have stood the drain for corn with but little variation in its movements but the two millions of drafts on Mr. Jaudon which were drawn after the knowledge of the state of affairs on this side in place of letting half that amount come in specie (which would have been sufficient, had it arrived here in July), was the cause of the advanced rate of interest of the continued unfavorable state of the Exchange as these drafts went to Paris to pay debts to a great extent.[116]

In the meantime, Humphreys and Biddle were pressing the Bank to compensate them for losses which they had incurred to aid Jaudon at the time of the crisis.[117] In August 1839 Jaudon had written saying that he had to have $50,000 and that "life or death to the Bank of the U. S. is the issue. If 5,000 Bales of Cotton must go, let them go, be the loss what it may."[118] Jaudon became heavily in debt to Humphreys and Biddle, and that latter firm pressed for payment.

At the January 4, 1841 meeting, the stockholders were informed that the dividend would be passed as it had been for the period since October 1839. It was resolved to continue the policy of contraction and retrenchment. Nicholas Biddle appeared at the

last moment armed with proxies and elected Jaudon, Price, Hemphill, and Robertson as directors in lieu of four men on the regular ticket. A committee headed by Joshua Lippincott was appointed to examine and report on the Bank. And at this meeting, for the first time in its recent history, some important and definitely unfavorable facts came out about affairs of the Bank. Estimates of losses at that time ranged from 17 to 22 millions. The precarious position of the Bank was obvious, and it was no wonder that the price of the stock declined and that there were runs on it when it opened. It is a remarkable tribute to either the prestige of the Bank or to the gullibility of the financial community that the Bank was able to secure any financial assistance in order to reopen in 1841.

The Bank came to the date of resumption with $7,500,000 of circulating notes and $1,600,000 of post notes outstanding. Specie exports were heavy in the last quarter of 1840 and the Bank had to anticipate a continuation of this. Moreover it had heavy indebtedness maturing in London. Important journals both in the United States and London were giving its affairs unfavorable publicity. It was not unreasonable that Biddle should once more counsel delay in returning to specie payments. The officers and directors thought otherwise and with reason: it would have been hazardous to run counter to public opinion, the well publicized views of the governor of the state, and the state legislature.

In anticipation of January 15, the Bank approached the state banks of Philadelphia for a large loan. A loan of $5,000,000 was arranged. The Philadelphia banks in turn enlisted aid from New York, Boston, Providence, and Hartford.[119] The Bank of the Manhattan Company agreed to participate in this venture provided the Bank would cease issuing post notes.[120] Even this loan was insufficient, for on January 14, the day before resumption, the Bank informed the other Philadelphia banks that success on the morrow depended on their buying large amounts of the Bank's Sterling bills. Some of the banks purchased amounts up to £75,000. This sign of weakness increased the distrust with which it was regarded.[121]

Once again the Bank turned to London for aid. Messrs. Alsop and Brown, of the board of directors, were dispatched to London as specie agents to raise what money they could on about two and three quarters millions of the Bank's stocks and bonds. This portfolio indicates how near to the end of its resources the Bank

had come. Less than half were Pennsylvania's 5's and the remainder consisted of the stocks of the Camden and Amboy Railroad, the Hazelton Coal Company, and of the Philadelphia, Wilmington and Baltimore Railroad. Two years later the two last-named stocks were sold for less than one-fifth of the value at which they had been carried on the Bank's books.

In January of 1841, through the resourcefulness of Jaudon, who had once more returned to London, a collateral loan for about £700,000 was arranged through James Morrison and Sons assisted by Brown, Shipley and Company and by Denison and Company. This was the source of the Sterling which the Bank sold to the other banks in Philadelphia.

When one considers the seriousness of the Bank's plight and the widespread distrust with which it was regarded, this financial aid seems rather surprising. Unfortunately for the Bank, its disease was so serious that no remedies could have worked a cure at this period of its life.

### Section V. *January 15, 1841 to February 4, 1841*

Largely because of pressure from the state of Pennsylvania the Bank and the Pennsylvania banks generally returned to specie convertibility on January 15, followed by the banks of Delaware, Maryland, Virginia, Georgia, and perhaps a few other states. Louisiana, Mississippi, Tennessee, and other states of the deep South and West did not take this step. These institutions were weak. They unquestionably knew that they could not meet the demands for specie which their creditor, the Bank, would make on them if they ventured to announce their readiness to pay in specie.

On the eve of resumption, the Bank was met by a demand for redemption of $2,600,000 of its notes. Many lawsuits were begun against it. In January, while the Bank prepared for specie convertibility, Governor McNutt of Mississippi openly came out in favor of repudiation. During the three weeks that it remained open, the Bank paid out over $6,000,000 of specie. Note redemption took more than $4,000,000. Large drafts on the Bank turned up from New York during this period. Although the Bank made large sales of foreign exchange in New York it is probable that the Bank lost cash to its rival city. Demands on the Bank seem also to have been encouraged by the banks of Philadelphia. The state of Pennsylvania chose this most inconvenient time to exer-

cise its undoubted rights under the law and asked the Bank for a loan of $400,000 with which to meet the interest on the state's debts on February 1. The loan was granted and led at once to demands for specie. The result of these combined demands on the Bank was that it exhausted its stock of specie and over £900,000 Sterling as well. On February 4 the Bank closed for the last time.

In some quarters this was viewed as "unexpected and unaccountable." [122] Many bankers in New York, Boston, and even in Philadelphia regarded the failure as a relief. For some, this was the occasion of "heartless rejoicing." Amos Kendall seemed to think that the Bank had met a richly deserved fate. Furthermore he observed, "Our bank lords may commit robberies of the most aggravated kind and go free of punishment without even paying a sum of money . . . they are treated as superiors even in their crimes." [123] The *Baltimore Clipper* caustically observed that the failure "was produced by combination among speculators and stock gamblers . . . [Wall Street] is a new regulator of the country, and much more blighting in its influence than the Bank of the United States or any similar institutions." [124]

At the time of failure, the ownership of the Bank was predominantly in foreign hands. Of the 350,000 shares, foreigners held 197,551 shares and Pennsylvanians 74,084. Massachusetts and New York stockholders had cannily disposed of a large portion of their holdings.[125] The failure was in some respects a more serious blow to foreigners than to Americans. If one includes the losses on collateral loans in Europe, the estimate of $25,000,000 seems conservative for foreign losses. Amos Kendall implied that Biddle had at last put into practice one of his own ideas. At an earlier date Kendall had said that as between foreign and domestic creditors "*the preference*, if any must be given, *was due to our own countrymen, as well on the score of morality as patriotism.*" [126] The failure of the Bank definitely placed the losses where Kendall's morality and patriotism suggested they should be.

## Section VI. *Post Mortem*

Hope for the continued life of the Bank died hard. The Bank petitioned the legislature for relief from the penalties for failure to pay specie under the Act of April 3, 1840. Liquidation at this time, it was pointed out, would not only injure the stockholders but also embarrass the state. Through the Bank many millions of Pennsylvania bonds had been pledged for loans in Europe. Liqui-

dation of these would depress the price. Pennsylvania would thus find it difficult to "complete and bring into profitable operation her public works." [127] On May 1, a statute was enacted over the governor's veto authorizing the Bank to operate free of the penalties imposed by the Act of April 3, 1840.[128] Unfortunately, from the point of view of the directors, this statute contained the proviso that henceforth the Bank must be subject to all of the regulations applicable to banks in the state. This was unacceptable.

At the stockholders' meeting of April 3, 1841, the financial plight of the Bank was aired in a comprehensive and lucid report prepared by a committee headed by Joshua Lippincott, a Philadelphia member of the board of directors of long standing and president of the Schuylkill Navigation Company. As a valedictory on the Bank this must have been bitter reading to Nicholas Biddle. Its general analysis is excellent. Even this investigation did not sufficiently stress the dubious value of many of the Bank's assets. Said the report:

> The origin of the course of policy which has conducted to the present situation of the affairs of the institution dates, however, beyond the period of the re-charter by the State. When it was perceived that the charter of the late Bank of the United States would not be renewed or extended by Congress, the president and directors commenced winding up its concerns; and among the first measures taken to that end was to sell or dispose of, as far and as speedily as could be effected, the assets of its several branches. This was generally done to State banks, who gave for them their obligations, payable by installments at distant periods. At the same time, the policy was adopted of converting the active debt into loans upon the security of stocks, by which permanent investments might be provided for the capital of the bank during the long period of its anticipated liquidation. On the 6th of March, 1835, "the president submitted to the board a general view of the situation of the bank . . . and the probable future demands upon it; showing its ample resources and power of expansion: whereupon," the committee of exchange, which was composed of three directors, appointed by the president, were authorized by the board "to make loans on the security of the stock of this bank, or other approved security, and, if necessary, at a lower rate than six, but not less than five per cent. per annum" . . . By the statement of the condition of the bank upon the 2d of March, 1835, the whole amount of loans upon bank stock, and other than personal security, was 4,797,936 dollars 25 cents; while by that of March 3, 1836, these loans had increased to the sum of 20,446,367 dollars 88 cents. Under such circumstances, the active means of the bank were comparatively small to pay the immediate demand of the State for the bonus, to settle with the government of the United States for its stock, and to meet its circulation of 20,114,227 dollars 56 cents, which, contrary to anticipation expressed at the period of its re-charter, soon began to be rapidly presented for redemption. The bank

was of necessity driven into the market as borrowers, and very soon the first step was taken to obtain loans abroad, by sending the cashier to Europe for that purpose. Two loans were accordingly negotiated by him; one in England, of £1,000,000 sterling; and another in France, of 12,500,000 francs, on favorable terms. . .

Thus the institution has gone on to increase its indebtedness abroad, until it has now more money borrowed in Europe than it has on loan on . . . active debt in America. To this has been superadded extensive dealing in stocks, and a continuation of the policy of loaning upon the stock securities; though it was evidently proper, upon the re-charter, that such a policy should be at once and entirely abandoned. Such, indeed, was its avowed purpose; yet one year afterwards, in March, 1837, its loans upon stocks and other than personal security had increased 7,821,541 dollars while the bills discounted on personal security and domestic exchange had suffered a diminution of 9,516,463 dollars 78 cents. It seems to have been sufficient, to obtain money on loan, to pledge the stock of an "incorporated company," however remote its operations or uncertain its prospects. Many large loans, originally made on a pledge of stocks, were paid for in the same kind of property — and that, too, at par — when in many instances they had become depreciated in value. . . The effect of this system was to monopolize the active means of the institution, and disable it from aiding and accommodating men engaged in business really productive and useful to the community; and, as might have been anticipated, a large part of the sums thus loaned was ultimately lost, or the bank compelled, on disadvantageous terms as to price, to take in payment stocks, back lands, and other fragments of the estates of great speculators.[129]

Following the stockholders' meeting of April, the directors began to close the branches and agencies and to dispose of the assets. The stock of the Merchants' Bank of New Orleans which had been carried on the books of the Bank at $90 a share was sold for $57.50. Negotiations were begun to sell the Insurance Bank of Columbus, Georgia, another subsidiary of the Bank. No new discounts were made and every effort was made to collect debts due to the Bank.

On May 5, the legislature authorized the stockholders to make an assignment of assets with the proviso that after they were made all corporate powers should cease except those necessary for the settlement of the Bank's affairs. On May 1, the Bank had already set up the Dundas Trust for the benefit of the Philadelphia banks which had exchanged the Bank's notes for post notes in December 1840.[130] On June 7, the Bacon Trust was set up for the benefit of other post note holders and for depositors. The Bank's notes, no longer received by the banks of Philadelphia, had immediately depreciated in the market. A final trust, known as the Robertson

Trust, was established on September 4 and 6 for the benefit of the remaining creditors of the Bank.

The Dundas Trust received assets valued at the time of its establishment at $7,772,250.33. To it were pledged the assets of the agencies at Buffalo, Erie, Washington, Cincinnati, Pittsburgh, and New Brighton. Because of the litigation in which this trust became involved as well as because it had a great deal of real estate to sell, the liquidation of this trust was very slow. By 1846, about three-fifths of the debt to the ten Philadelphia banks was paid. Further payments were made from time to time, and the banks seem to have received a large fraction of their claims. The last receipt for such payments that came to the attention of the author was dated August 31, 1866.

The Bacon Trust was a long-drawn-out and complicated affair. This trust received assets valued at $12,473,820.60. The claims against it amounted to around $7,000,000. But the assets were of a dubious character: real estate, balances due by sundry banks, stocks and bonds. The assets of the trust in Louisiana became unavailable because of litigation started by the United States government to secure payment of the deduction which the Bank had made from the dividends due to the federal government for damages on the French bill, and for the bond given by the Bank for the government's share in the old Bank.[131] Small sums were realized from the claims on the Mississippi banks at the cost of much litigation. Claims of the trust against the Morris Canal and Banking Company turned out to be worthless. Bonds of the New York, Providence and Boston Rail Road valued at $500,000 were sold for $113,603.57.[132] Against these assets, certain foreign and domestic creditors entered belated claims — Rothschilds, May Humphreys, Huth and Company, the Borough Bank of Liverpool, Hope and Company, and the state of Pennsylvania. Negotiations dragged along into the 1850's. The depositors and note holders seem to have received substantial payments, and some small sums were turned over to the foreign claimants mentioned above.

The Robertson Trust received the remaining assets of the Bank valued at $14,931,687.89. The domestic creditors were to be protected by this trust but actually the foreign bankers who had advanced money to the Bank became claimants on it. Payments of these claims to the extent of about one third were made. There is no evidence that the stockholders received anything from this or the other trusts.

*PART THREE*

# VERDICT ON THE BANK

XII

# In Retrospect

It is valuable at this point to review the arguments put forward by observers of the Bank, and to consider them in relation to its actual administration and administrative performance. Further, it is essential to summarize the Bank's positive achievements, and to define its contribution to American economic development.

Long before the Second Bank of the United States came into existence, Hamilton had favored such an institution on the ground that it "links the interest of the State in an intimate connection with those of the rich individuals belonging to it; that it turns the wealth and influence of both into a commercial channel, for mutual benefit." [1] In the opinion of Chief Justice Marshall the Bank was a legitimate means for the "execution of those great powers on which the welfare of a nation essentially depends." John Quincy Adams thought it a useful device for holding the Union together, avoiding the disruptive effects of bad banking and uncertain currencies and generally preserving "the obligations of contracts and . . . [the] security to property against the frauds of paper swindling." [2]

There were men of a different cast of mind who viewed a national bank as a usurper of powers which rightfully belong to the states.[3] Jefferson thought it to be hostile to the "principles and form of our Constitution." [4] To others, a national bank was a symbol of the rising power of finance and commerce and incompatible with the ideal of a simple agrarian society.

Such incidental attention as we have been able to give to the Bank's role in American political and social development suggests that it did succeed in strengthening the power of the federal government, in bringing some degree of unity into monetary affairs, and in enlisting the support of men of wealth. Because of the political overturn in 1828 men of a different cast of mind and of different convictions about the role of government in economic

life came to power in 1829. From this newer point of view many of the Bank's achievements took on the appearance of defects. Its failure to secure recharter in 1832 was, in some measure, a tribute to its success in forwarding the important general ends which the founders had in view.

In this chapter we shall attempt the simpler task of reviewing the Bank's achievements as an economic institution: its loan policy, its relation to the bank-note circulation of its day, its effects on other banks, its transactions in domestic and foreign exchange, its service to the government, and its relation to the general development of trade and commerce of the United States.

(1) The Bank was a dangerous monopoly, said its enemies. It was popularly referred to as the "monster." Did this refer to size? capacity to dominate the money market? or did it signify resentment against exclusive privileges?

Strictly speaking, the charge of monopoly was absurd. In 1830, when the Bank was very prosperous, it made only about 20 per cent of the total bank loans, its note circulation was about one-fifth of the total, and it held about one-third of the total bank deposits. In its vaults was about one-third of the specie owned by American banks. In Table 6, Chapter III, p. 56, are figures which indicate the relative position of the Bank in representative years.

In a certain limited aspect the charge was true, as the Bank dominated the domestic and foreign exchange business. It was sufficiently large so that a change in its loan policy affected other banks. When its loans increased, the state banks were enabled to expand their loans and vice versa. Throughout much of its career the Bank occupied a monopoly position in relation to the federal government as the main recipient of the deposits of the Treasury and of other public offices. The Bank's notes were especially privileged in payments to the government. As for the Bank's charter, it was indeed a special grant of privilege not available to others. The New York free banking act was not passed until 1838. Before that time, special charters were the rule.

Benton argued that mere size made the Bank dangerous. It was a great moneyed power which could "subjugate the government": a power which he felt could and would perpetrate frauds on the public through collusive agreements with the Treasury about the terms of loans. Such a bank was viewed as a standing invitation to create a public debt "by facilitating public loans, and

substituting unlimited supplies of paper, for limited supplies of coin." Lastly, such a bank would tend to "beget and prolong unnecessary wars, by furnishing the means of carrying them on without recurrence to the people." [6] The absurdity of these ideas is manifest. Henry Adams correctly observed that the view that the Bank was a menace to American liberties was "one of those delusions which characterize ignorant stages of society." [7]

The Bank was sometimes criticized for having a loan policy which increased economic inequality. Said Benton,

> It tends to aggravate the inequality of fortunes; to make the rich richer, and the poor poorer; to multiply nabobs and paupers; and to deepen and widen the gulf which separates Dives from Lazarus. A great moneyed power is favorable to great capitalists; for it is the principle of money to favor money.[8]

There was some truth in this charge. During Jones's presidency, the officers at Baltimore and elsewhere used bank credit in an attempt to secure speculative gains in the stock market. Biddle's own use of the Bank's funds for trading in cotton and securities, his large loan to his cousin Thomas Biddle, the broker, and the transactions between the Bank and E. R. Biddle of the Morris Canal and Banking Company were instances in which the rich secured benefits from the Bank. Particularly of later years of the Bank's life, one gets the impression that it, like most or all other banks of the period, was definitely useful to the directors of the institution and their friends, that is, to men of wealth. This widely prevalent defect of banks in this period was a particularly serious fault in an institution with important public responsibilities.

But if the Bank helped to make the rich richer, it also helped the poor, indirectly, to become richer too. It provided a superior bank-note currency. The losses to the poor who held its notes were less, over the years, than the losses to holders of state bank notes. More important, it will be recalled that the Bank secured short-term loans from foreigners before 1836, and after that date greatly augmented the importation of British and Dutch capital. Much of this long-term capital was used to improve the transportation system. With reduced transportation costs came an increase in the real incomes of workingmen and farmers. Between 1816 and 1840, wage rates were stable and in a few types of employment showed a tendency to rise.[9] The hours of work were not lengthened. In some areas developing manufactures provided

employment and cash income for women and children thereby increasing family cash income. Commodity prices generally declined, thus bringing an increase in real wages. The improved transportation facilities also brought an improved and more varied standard of living. To the farmers, the reduced transportation costs meant higher prices for their products.

Friends of the Bank have claimed that it tended to equalize interest rates throughout the country. Benton, on the contrary, scornfully said that this idea was an "illusion." [10] Direct empirical evidence on this point is not obtainable. In favor of it is the fact that the Bank's capital came from the North and East and Europe. The southern and western branches were generally in debt to the home office. In this manner the Bank probably added to the amount of credit available in the West and South and to this extent it justified the claims of its friends. Furthermore, the Bank was almost the only dealer in domestic exchange and the leading dealer in foreign bills. This dominant position suggests that the Bank gave the South and West better prices and lower rates of discount on their bills than their potential competitors, the local banks, were able to offer. As for the interest charges on loans "on personal security," there is no evidence that the presence of the Bank and its branches materially lowered the rates charged in the West and South.

In its role as issuer of a nationally acceptable bank-note currency, the Bank was the subject of perennial controversy.[11] It will be recalled that late in 1818 the Bank reversed Jones's earlier policy of general redeemability and agreed to convert notes into specie only at the offices of issue. There were instances of the Bank's taking the notes of distant offices at a small discount of ¼ or even ½ per cent. The Bank's refusal to maintain unqualified universal convertibility at par was technically a failure to provide a national currency everywhere equivalent to specie. This was one aspect of things that President Jackson had in mind when he said that the currency lacked "uniformity."

In fact, the Bank achieved a notable success in providing a note issue of high quality between 1819 and 1836. Its notes were frequently preferred to gold, and the discount on notes of distant branches, in so far as it existed, was less than the cost of transporting specie. At the time the federal charter expired these notes were well regarded and Americans were beginning to forget their earlier and unfortunate paper money experiences. In fact, after

the 1818–1819 emergency was past, the Bank's notes were ordinarily convertible at each and all of its offices.[12] General redemption of five-dollar notes was carried out as a matter of considered policy. Moreover, universal convertibility was not so important as the Bank's critics said because the notes were received by all of the collectors of the federal revenue regardless of point of issue. The Bank in its turn had to take any of its notes at par from the government. This assured their general acceptability.

The Bank had good reasons for guaranteeing conversion of its notes only at the point of issue. Every president, from Jones onward, pointed out that an unqualified promise to redeem any and all notes at the twenty or twenty-five offices at widely scattered points throughout the United States would have required the maintenance of impossibly large specie reserves in the aggregate. There was always the possibility of a large concentration of demand at a particular point. The only way the Bank could provide as large a note issue as the public wanted was to issue notes under such restrictions as were imposed.

The Bank's notes were uniform in the sense that they did not fluctuate violently in quantity. (Chart 6, pages 49–51.) Generally speaking, its notes in circulation increased steadily until the latter part of 1835. The Bank was notably successful in avoiding a contraction of its note issues during and following the 1825–1826 crisis, at a time when there was a 50 per cent reduction in the Bank's specie reserves. In general, its note issues did not vary in the same degree that its specie reserves changed.[13]

Exceptions to this record of stability in the Bank's circulating notes occurred in 1818–1819 and again in 1834. The first of these contractions was essential if the Bank was to maintain specie convertibility. As it was, it narrowly escaped having to suspend specie payments. The reduction of note circulation in 1834 was less excusable: the Bank's specie reserves were large and by 1834 the danger from attacks by the Treasury and the state banks was practically a thing of the past. Possibly in 1819 and probably in 1834 the note issue contracted as a result of the depressed state of business and the declining need for circulating notes. If the decline in note circulation was the result of the state of business, the Bank was responsible for the changes in volume, but it shared this responsibility with others. The United States government also played an indirect but not unimportant role in bringing about the conditions which led to these reductions in note circulation.

The Bank's notes and drafts were alleged to have driven specie from circulation to a dangerous extent and to have caused entirely too much of it to be exported. As viewed by the hard money men, the framers of the Constitution had intended that gold and silver should make up the circulation. This purpose seemed to have been thwarted almost from the beginning. Secretary Hamilton was a "paper system man: a man devoted to the paper system of England." Hamilton, the real father of the Bank, had seen to it that the power to issue paper currency had been delegated to this institution contrary to the real intention of the fathers of the Constitution. Benton urged "the people . . . [to] put down the power that first put down gold." [14]

From 1819 to 1836, the Bank's specie reserves were ample. As we saw in Chapter III, its cash holdings were normally much larger than those of its state bank competitors. Furthermore, the restraints that it placed on the state banks tended to prevent them from following a course which would have led to specie exports. Within the framework of the "mixed" currency, which the Bank was designed to implement, its conduct was definitely conservative up to 1836. In retrospect, the 100 per cent hard money proposals of the Bank's critics appear impractical. The events described in Chapters X and XI indicate the kind of domestic and international effects which a thoroughgoing hard money policy entailed. Certainly a currency made up entirely of coin would have been costly. Up to 1836, the policies of the Bank were more in the national interest than those of the hard money enthusiasts.

2 The Bank was charged with extorting profits from the public by means of the branch drafts[15] supplied to the public at a premium in place of the Bank's notes at par. Considering the fluctuating character of the interregional balance of payments and the costs of transportation of specie, the premium on the drafts was not excessive. The extent to which this premium represented a serious lack of uniformity in the currency was exaggerated by the critics of the Bank. But there *was* a premium. Jackson in his criticism of the Bank repeated this charge again and again. His point was technically correct and he made the most of it.

The branch drafts seemed to explain the heavy concentration of specie at the Philadelphia office and in New York and Boston. The branches were said to have consigned specie to these centers to redeem their drafts drawn on the East.[16] Critics of the Bank

with their attention fixed on the drafts quite overlooked the real causes of this specie movement: the fact that New Orleans was the port of entry for much Mexican silver, the character of trade, and the pattern of interregional indebtedness. Critics did not mention the fact that New Orleans also was often the holder of the largest specie reserves of any of the offices.

In fact, some of the concentration of specie reserves was a matter of self-conscious policy.[17] The Bank's friends thought that criticism on this score was mistaken and that concentration of specie at the important commercial centers was essential to the maintenance of convertibility. Eighty-one years later, concentration of specie reserves was called progress.

The branch drafts were characterized by Sumner as a "most unlucky invention" because they removed the checks on inflation. Of the multitude of criticisms of the Bank in 1832, this one alone seemed to him not to have been "frivolous and ignorant." [18] Yet it is difficult to see how this means of economizing specie in the United States should have had a serious inflationary effect. The effect of the drafts on the world money and credit situation were slight and inflation when it came was a world-wide affair. The effect of the drafts was slightly to increase the chances of America's being driven off the specie standard. But events proved that the drafts were an unimportant factor and that other circumstances were important when the United States was separated from its specie anchor. As a source of inflation, the branch drafts were insignificant.

The officers of the Bank were proud of its achievements in providing a means of payment over a very large area of diverse economic circumstances. Biddle, on a number of occasions, pointed to this with pride. The Bank had dealt, he said, with problems that did not even exist for European central bankers. He was never apologetic for the drafts and the role that they played in national economic life. This view was essentially correct. They were useful. They were an aspect of that nation-wide means of payment which it was intended the Bank should provide. There remain only the legal questions connected with the right to issue them and the right to charge a premium.

Competent legal authority was divided on the constitutionality of the branch drafts. Daniel Webster, William Wirt, and Horace Binney said that the drafts were unobjectionable, and so did the Federal Courts. Benton's view was that the branch drafts

gave the Bank "power to issue a paper currency far beyond the amount of the coined currency of the union . . . a power superior to that which the State Governments surrendered to the Federal Government. . . The substantial power of coining and regulating the currency, is in the Bank."[19] Congress had no power to make anything but gold and silver legal tender. But Congress had made the mistake of creating the Bank which was issuing "bills of credit" which "become a forced and irresistible tender in the payment of debts."

In 1818, 1820, 1823, and 1827 the Bank had attempted unsuccessfully to get Congress to modify the regulations regarding the signing of bank notes, claiming that it was practically impossible for the president and cashier of the Bank to sign the necessary volume of notes. Failing to get Congressional approval. Biddle finally induced the directors in 1827 to authorize the issuance of branch drafts in lieu of notes. He was alert to the sizable profit from the branch drafts. These substitutes for bank notes turned out to be a political boomerang.

Discrimination against the South and West was alleged to have deprived those areas of their rightful amount of Bank notes and credit between 1818 and 1827. These ideas were founded on the Bank's policies between 1818 and 1820, as we saw in Chapters VII and VIII. Even Biddle admitted that there had been a time when the Philadelphia institution's notes had been issued "rarely and hesitatingly" in the South and West.[20] It will be recalled that when Biddle took over the presidency he was of the opinion that there had been entirely too much banking in these areas and he intended to orient the Bank toward the commercially better developed parts of the United States.

The charge of regional discrimination is not impressive when one looks at the statistical record. At an early date, the New Orleans branch became the largest note issuer of all the offices. It even surpassed Philadelphia. Taking the net issues at the various offices as a criterion of discrimination, the figure for the South and West was 73 per cent of Bank note issues in January 1822, and 71 per cent in January 1827. This does not look like serious regional discrimination. If these areas were deprived of Bank notes it was primarily because they were used in making remittances to the North and East.

As for loans on personal security, the Bank reduced loans of this type about 25 per cent between December 1, 1818 and Janu-

ary 1, 1822. The amount of loan reduction varied from office to office with a tendency to favor the North and East. At the following offices the reduction in these personal loans was less than for the Bank as a whole: Washington, Fayetteville, Charleston, Savannah, Louisville, and Cincinnati. At Cincinnati, and perhaps elsewhere, the Bank did not reduce these loans for the reason that it could not. Nevertheless, the statistics suggest that discrimination against the South and West was not universal. Between 1822 and 1827, personal loans increased for the Bank as a whole. In 1822 about 75 per cent of them were made in the South and West; in 1827 about 60 per cent. A sample check on the item "due from state banks" in the South and West did not indicate an excessive severity of the Bank toward banks there. In 1822 about 66 per cent of the balances due from banks were located there; in 1826 100 per cent; and in 1827, 50 per cent.

Criticisms of the Bank on the ground of regional favoritism were founded more on the desire of that rapidly growing area for more capital than on fact and logic. Critics failed to note that in so far as the Bank was guilty on this count it could not have been simultaneously guilty of driving specie out of circulation by the excess of its issues.

In the domestic exchange market, the Bank played a beneficial role. Gallatin, writing in 1831, justly remarked:

> The bank purchases at Philadelphia and at every one of its offices bills of exchange payable at different dates and on all parts of the United States where there are such offices, and the bank and its offices sell their drafts on each other payable at sight . . . There is not, it is believed, a single country where the community is, in that respect, served with less risk or expense.[21]

Because of its widespread network of branches, the Bank could transact a domestic exchange business more expeditiously than the banks incorporated by the states. As the most important dealer in domestic bills it was in a very strategic position to expedite inter-district transfers necessary because of the government's receipts in the West and expenditures in the East. The Bank thus not only served the business interests of its clients, but also dealt in the kind of financial instrument most suitable to its role as banker for the United States. It also, quite intelligently, left the lion's share of the loans on personal security to the local banks. These institutions were presumably qualified to appraise the credit standing of individual borrowers. At any rate, in turning to the domestic exchange business (or what might have

been called the trade acceptance business), the Bank rendered a service which the country badly needed and which its nation-wide organization gave it unique facilities to perform.

While operating under a federal charter the Bank helped to make state bank notes more trustworthy. By presenting them for redemption the Bank restrained the state banks from excessive issues. Exceptions to this occurred in 1817–1818 and in the years following 1836, as we have seen in Chapters VII and XI. The federal government shared with the Bank the responsibility for the failure to control the currency prior to 1819, as we saw in detail in Chapter VII.

The restraint which the Bank exercised on the note issues of the state banks was generally beneficial. Such was the opinion of Gallatin, Calhoun, and others. In the debate on Webster's bill to extend the life of the Bank for six years, Calhoun said that "an unfixed, unstable, and fluctuating currency is to be ranked among the most fruitful sources of evil." [22] The actual currency, he pointed out, consisted of bank notes. In view of the rivalry of the states in granting bank charters and the tendency of each bank to issue too much paper, Calhoun looked with misgivings on the multitude of state banks. One institution was less dangerous than many, he said.

Benton, on the other hand, viewed this supervisory activity with disfavor. The Bank, he argued, was "armed with authority to disparage and discredit the notes of other banks, by excluding them from all payments to the United States. . . [This power] makes this institution the uncontrollable monarch of the monied system of the Union." [23] Some, but not all, of the animus against the Bank prior to 1836 arose from its success in controlling state banks.

In the foreign exchange market, the Bank's role was important and generally beneficial, as we have seen in Chapters III and VI. Beginning about 1826, it will be recalled, the Bank became the leading dealer in foreign exchange in the United States. Occasionally this was deplored in England as well as in America. The Bank of England regarded such transactions as inappropriate for an institution like the Bank. Condy Raguet, while not opposed to the Bank's dealing in foreign exchange as such, was opposed to the methods used. Foreign borrowing, the export of securities, and other operations of the Bank had, said Raguet, removed "the great check upon over-trading and the over-issue of

paper,"[24] namely, the export of specie or the threat of it. Benton, as one might expect, roundly denounced the Bank for manipulation of the rate of foreign exchange.[25] The New York banks claimed that Biddle tried to embarrass them in the spring of 1838 and again in 1839. These forays into the market, during the Bank's last days, understandably invited criticism.

The charge of "manipulation" was valid, but it is difficult to see how the Bank could have escaped it. The Bank was by far the largest dealer in foreign exchange in the country. By virtue of its size any decision to buy or sell, or to establish a buying or selling price, was bound to affect the exchange quotations. This was recognized by the Bank as early as 1822. As we saw in Chapter III, the largest institution in the country could hardly hope to occupy a minor and uninfluential role in this market.

The charts of Sterling exchange rates and the foreign position of the Bank given in Chart V, Chapter III, show the inverse correlation that one would expect from an intelligent, if somewhat speculative, dealer. When rates of exchange were high, the Bank not only drew on its balances but borrowed and drew. When rates were low the Bank bought bills and accumulated foreign balances. Its policies were, generally speaking, in the public interest.

It was charged that the Bank, when it saw fit, used its dominant position in the foreign exchange market to further its own interests rather than the public interest. In 1834, when the Treasury was withdrawing deposits from the Bank, that institution accumulated a very large foreign balance. Was this harmful to the mercantile public? Not for years had the rates of exchange been so low as they were in this period of tight money. The accumulation of foreign balances probably served the interests of the Bank and the public interest as well. The Bank's critics would have had a real grievance if it had refused to purchase foreign bills at this juncture. The fundamental criticism in 1834 was not that the Bank was speculating in foreign exchange, not that it was buying bills when they were cheap, but rather that for reasons best known to the officers it was needlessly prolonging the money crisis and thereby creating conditions which led to forced sale of foreign bills at low prices.

In its relations with the government, the Bank proved to be a generally useful administrative aid. In 1817, it was all too cooperative in helping the Treasury and assisting with the return

to specie payments. This achievement did not pass without challenge. Benton, in his speech of March 21, 1834, said that it was not the Bank that had reformed the currency. The important step was the action of Congress in the resolution of April 30, 1816 in which it was specified that federal government would accept only the notes of specie-paying banks.[26] As we saw in Chapter VII, the resumption, achieved at such cost to the Bank, was nominal. The Bank's mistakes at this juncture arose not from uncoöperativeness but rather from a too great willingness to serve the Treasury.

The Bank was successful in its role as fiscal agent for the government. Even Andrew Jackson admitted that it had rendered services of a high order in transferring the funds of the government from point to point, and in acting as agent for the payment of pensions and handling interest payments on and redemption of the internally held government debt.

The Bank attempted to compensate for the irregularities in the size of the government deposits with it. As explained at some length in Chapters III, VIII, and IX, the Bank partially offset this by its loan policy. This was a useful achievement.

It was incorrectly said that the Bank was uncoöperative about establishing branches for the convenience of the Treasury. On this point, Senator Benton said:

> if the Bank of the United States thought it to be to her interest to establish branches in the States, she might do it; or, if 2,000 shares of stock were subscribed for in a state, and thereupon an application was made by the State legislature for the institution of a branch, then its establishment within the state became obligatory upon the bank. In neither contingency had the will, the power, or the necessities of the Federal Government, the least weight, concern, or consideration, in the establishment of the branch.[27]

This last was untrue. The Secretary of the Treasury frequently suggested the establishment of branches and these recommendations were given respectful attention by the Bank. In this respect, the conduct of the Bank was as coöperative as might reasonably have been expected.

Contrariwise, it was urged that the Bank had multiplied its branches in order to extend its own influence.[28] Actually the Bank resisted a good deal of political pressure to establish branches; they were established only in cases where there was reasonable need.

The Bank was alleged to have made unconscionable profits because it was the principal depository of the government's funds. These balances were very large at times and doubtless enabled the Bank to make loans which otherwise could not have been made. But the Bank was not a large beneficiary of this arrangement. It paid a million and a half dollars for the privilege of being the depository of public funds. Because of the irregularities in withdrawal of Treasury deposits it had to keep unusually large specie reserves. The exaggerated importance attached to these public deposits is apparent when we recall that the rate of profits of the Bank, while substantial, was about the same as the profit rate of the better run banks in urban centers. As a federal institution, the Bank paid an annual dividend of 7 per cent in its most prosperous years. After the disasters of 1818–1819, it paid no dividends for two years. By the standards of its time, the Bank's profits were not excessive.

The attempt to postpone the payment of the United States 3's in 1832 figured prominently in the indictment of the Bank. As we saw in Chapter X, the motivation for this policy was mixed: when the plan was designed it looked as if this arrangement would protect the public interest as well as augment the Bank's profits. It will be recalled that General Cadwalader was sent to Europe with very loosely drawn instructions to work out some arrangement to tide the Bank over an emergency. When it was discovered that the arrangements were in some respects illegal, the Bank took immediate steps to correct the error. The Bank's principal fault in this matter was in entrusting too much responsibility to its agent or in giving him insufficiently clear instructions. In general, the seriousness of the Bank's error was greatly exaggerated by its critics. The mistake occurred at a time when the Bank's enemies were happy to add one more item to its list of misdemeanors.

The public never generally understood that in the matter of public debt redemption (especially redemption of debt in foreign hands) the Bank, quite as often as Congress and the Treasury, had the interests of the country in mind. The Bank, on a number of occasions, asked the Treasury for adequate advance notice of the amounts and locations of federal debts due and payable so that it could plan for the necessary redistribution of funds. The Bank, on occasion, had to remind the Treasury that some thought should be given to so simple a matter as the Treasury balance

before it announced its debt retirement plans. It was the Bank, rather than the Treasury, that was aware that some consideration should be given to the international financial situation when planning retirement of the public debt.

Much dissatisfaction was expressed in government circles over the way the Bank handled the protested bill drawn on the French government. The Bank presented and collected the 15 per cent damages customary on such transactions. Both sides ultimately agreed that this question should be settled in court. The case was finally settled in favor of the government and the latter's charge against the Bank was upheld.

It is difficult to regard this procedure on the part of the Bank as a serious fault. The Treasury had requested it to undertake this foreign exchange operation. The dishonor of the draft was certainly not the fault of the Bank. In assessing a charge for this transaction, the Bank was following standard banking practice. The sense of outrage expressed in high government circles probably had its roots in general antagonism toward the Bank rather than in a just appraisal of banking procedure.

Critics of the Bank occasionally alleged that it was so badly run that it could not pay its debts.[29] Its current liabilities were observed to be in excess of the specie on hand and a grave view was taken of this situation. That the Bank could not pay all its depositors and note holders simultaneously was undoubtedly true. As suggested above, Biddle and other Bank officers had a well-considered point of view about the merits of a "mixed" circulation and about the merits of fractional rather than 100 per cent specie reserves. Even the Bank's enemies thought that the charge that the institution could not pay its debts was not worth much emphasis.

The solvency of the Bank was questioned by a Senate resolution in 1833. The investigating committee rightly concluded that the public funds on deposit there were abundantly safe.[30] While the Bank operated under federal charter the only time that there was the slightest ground to doubt its soundness was in the latter part of 1818 and early 1819. There is no basis for thinking that the Bank was less well run than other conservative Atlantic coast banks, until the disastrous period that began in 1836.

The quality of the administration of the Bank was widely discussed. There was an obvious difference in the administrative competence shown at various times. Jones was clearly less able

than Cheves; Cheves less resourceful than Biddle; Biddle after 1836 was less wise than Biddle before that date. As for Dunlap, the caustic verdict rendered by T. W. Ward was well deserved.

It was true, as the Bank's enemies said, that the institution was dominated by Biddle. He often failed to consult the full board on important matters of policy and instead relied on the small and hand-picked exchange committee. The habit of acting as he saw fit and securing ratification afterwards seems to have grown on him the longer he remained at the Bank. The most outrageous cases of the kind, perhaps, were the purchase of the $5,000,000 of Mississippi bonds and the commitment of the Bank to the guarantee of the Michigan bonds in the weeks immediately prior to his retirement.

There was justice, too, in the allegation that Biddle excluded the government directors from important committees and from access to information. This was notably true after 1832. When Jackson placed H. D. Gilpin on the board of directors, Biddle was understandably reluctant to disclose facts to him when he knew that information unfavorable to the Bank would be promptly relayed to the White House.

These highhanded procedures have earned Biddle the distinction of being called a typical nineteenth-century entrepreneur. His masterful attitude may have come from long familiarity with the position which he occupied. His superior qualities of mind and his brilliant insights into the banking situation may have made him impatient (and contemptuous) of his colleagues. In his later years there were occasional criticisms of his conceit, but generally his contemporaries praised his good manners and unfailing courtesy. If Biddle had *suaviter in modo* he also possessed *fortiter in re*. The latter cost the Bank in popularity and in the end it deprived the institution of those checks on his judgment which might have saved it from disaster.

The "accumulation of proxies in the hands of a few to control the election of directors" [31] was held against Biddle. Of this he was unquestionably guilty, as was amply demonstrated by the investigators of the Bank. In January 1832, Nicholas Biddle owned only 10 shares in the Bank. The total of shares standing in the names of Nicholas, Thomas, Lydia, and Thomas Biddle and Company amounted to only 212.[32] On the other hand, Stephen Girard owned 6331 shares and Barings owned or controlled 6465. The collection of proxies was a procedure at which Biddle was

adept. So were his predecessors. As we observed in Chapter III, the structure of the Bank's organization invited this practice.

There is little evidence that there was any widespread opposition to Biddle's control of the Bank before 1832. It will be recalled that up to that time he was the appointee of the United States Government. In later years he was an elected member of the board. Following 1832, Biddle's collection of proxies may have been necessary to assure control. Possibly, his control of proxies lay back of the subservience of the board of directors to his wishes. We shall never be sure about the damage, if any, that was done to the Bank by this insider control. Biddle's popularity, however, suggests that the collection of proxies was hardly necessary to perpetuate his power.

The Bank was said to be in the service of absentee owners, "many of them foreigners, and the mass of them residing in a remote and narrow corner of the Union, unconnected by any sympathy with the fertile regions of the Great Valley, in which the natural power of this Union — the power of numbers — will be found to reside long before the renewed term of a second charter will expire." This allegation was true. The ownership did reside primarily in the Atlantic seacoast states and with the passing years more and more of the stock was owned overseas. Said Benton:

> The fact is, that the bank lives upon the people! . . . The bank refunds nothing; but all the money it makes out of the people is gone from them forever . . . Twice, in every year, they make the division of these modern *spolia optima* — these dearest spoils — not of the enemy's general killed in battle, but of American citizens fleeced at home. . . It is "absenteeism" in a new and legalized form.[33]

Biddle, of course, had a different point of view. Foreign capital was badly needed to assist in the development of the extraordinary investment opportunities that he saw about him everywhere.[34] The Bank was able to further this import of capital in more ways than one. In 1832, there were 84,055 shares of Bank stock in foreign hands.

Jackson went further and suggested that foreign ownership would invite "political involvements."[35] Other critics suggested that it would lead to paralysis of the Bank in the event of war. However, this line of thought was given little prominence, perhaps because even the Bank's enemies regarded it as absurd.

They were undoubtedly so sincere in their belief that the Bank was a public enemy that they did not stoop to this politically powerful, though erroneous, line of attack.

Nicholas Biddle was excoriated for playing politics and for allegedly corrupting Congress and the press. Without doubt, he did play politics. It was not a purely spontaneous interest in the Bank recharter controversy in 1832 that led to the flood of memorials for (and against) recharter. A mere listing of these petitions occupies fifteen pages of the index to the government documentary series in which they were published.

Jackson and his friends said that the timing of the application for recharter was so chosen as to produce a maximum of political embarrassment for the President. This was an important but not the sole consideration.[36] The Bank replied that Jackson himself had raised the question of an early decision in his message to Congress in 1829. The Bank said that Jackson's concern over the Bank was politically motivated and that he was the aggressor. Biddle's earlier letters and papers generally indicate a desire to devote himself to banking and to be aloof from politics.[37] But once the life of the Bank came into jeopardy, Biddle turned to political intrigue in its interest. Printing contracts[38] were let where they would do the most good, documents and reports favorable to the Bank were printed and widely distributed, and loans were made to congressmen and to editors. The Bank undoubtedly had a number of political friends in both the House and the Senate. Biddle wrote to these men frequently telling them the facts as he saw them and virtually telling them what to say.

The charges of bribery and corruption [39] were greatly exaggerated. Normally, loans to Congressmen were about $200,000 — a small fraction of the Bank's total loans and discounts of around forty millions of dollars. In 1832 these politically oriented loans increased to about $478,000 in a year when the total loans approximated sixty-five millions. The next year, when the Bank was presumably punishing the country for its harsh treatment, the loans to Congressmen were larger than in any year except 1832. Moreover, as Biddle was not slow to point out, these were loans, not gifts. Furthermore, loans were made to Congressmen known to be unfriendly to the Bank.[40] In general, most of the friends of the Bank in Congress favored it from conviction or because their constituencies favored it.

Jackson and his friends played politics also. At a White House discussion of the removal of the public deposits with Martin Van Buren, Amos Kendall, the trusted adviser of Jackson, said:

so certain to his mind was the success of the Whig Party in the next presidential election, and the consequent recharter of the Bank, that unless the latter were now stripped of the power which the possession and management of the public money gave it, he should consider further opposition useless and would lay down his pen, leaving to others this question and all that pertains to the politics of the country.[41]

The critics have been rather hard on Biddle. Theodore Roosevelt once described him as "conceited . . . untruthful, and to a certain extent unscrupulous in the use he made of the political influence of the great moneyed institution over which he presided." [42] Should Biddle have stood by while the Bank was destroyed by a group of politicians acting either in ignorance of the banking needs of the country or cynically in the interest of a large number of small and incompetent state banks? Biddle fought for the life of the Bank and he used some of the same means that his political opponents did. As between Jackson and Biddle on this score, the argument is a draw.

The most significant failure of the Bank was its inability to achieve a *modus vivendi* with the government. This point obviously was not discussed by the Bank's enemies. This was not on account of any major flaw in the Bank's structure, or banking technique. Rather, its failure was a failure in political strategy. It is probable that the political battle was lost before it was ever started. The Bank's foes had neither the capacity nor the will to understand the role of a central bank in contemporary economic life.

Lastly, the Bank and the banking system generally were held responsible for the instability of prices, booms and depressions, and speculative price movements.

The regulation of the currency of a nation [said Benton], was one of the highest and most delicate acts of sovereign power . . . involving the sacred relations of debtor and creditor, and the actual rise and fall in the value of every man's property, . . . the Government ought not to delegate this power, if it could. It was too great a power to be trusted to any banking company whatever, or to any authority but the highest and most responsible which was known to our form of Government. . . The people are not safe when a company has such a power. . . All property is at their mercy. The price of real estate — of every growing crop — of every staple article in market — is

at their command. Stocks are their play things — their gambling theater — on which they gamble daily — with as little secrecy, and as little morality, and far more mischief to fortunes, than common gamblers carry on their operations.[43]

On another occasion Benton remarked that

the expansion and contraction of the currency . . . was the vice of all banks, especially powerful ones, such as the Bank of England and that of the United States. To make fortunes for individuals connected with the bank — to favor gamblers in the stocks — was generally the object of these expansions and contractions; but political ends were sometimes the main object. . . Once, in a certain number of years, the cycle of these operations came on in England, and was always attended with the making and breaking of many fortunes. . . This operation . . . had been three times performed in the United States by the present bank: first, in 1818–9, from mercenary motives, to gamble in the stocks, and riot in the distresses of the country, and to make fortunes for the directors and their friends; once, in 1831–2, to effect a political object. . . The removal of the deposits was the next great occasion.[44]

Ideas of this sort were widely held throughout the United States. In England, too, the banks were held responsible for economic instability. England imposed restrictions on its central bank under the Bank Act of 1844. The United States abolished its central bank, the Second Bank, and attempted to minimize the role of banks by an effort to put gold into general circulation. Gold, it was held, had stability of value, and gold, it was believed, would supplant bank notes in the circulation if the coinage laws favored it.

To put it mildly, the Bank's contemporaries had greatly exaggerated ideas about the Bank's power over prices and business. As we saw in Chapter V and later chapters, price fluctuations would have occurred, Bank or no Bank. Years of prosperity would have been followed by years of dull business, Bank or no Bank. American business operated in the context of a world market, and the Bank certainly did not govern the latter. Prosperity and depression in the United States were much influenced by variations in the amount of foreign capital coming this way. The Bank of the United States had something to do with this, but so did the Bank of England and so did the whole complex of influences which operated in the foreign capital markets. The fiscal policies of both the federal and state governments were potent factors in the uneven economic developments of this period. But fiscal policy influenced the Bank more than the Bank influenced fiscal

policy. As noted in various places in this narrative, governments, state and federal, were an important cause of business and financial instability.

It was said that the Bank, under Jones, promoted inflation and created false prosperity. When the easy-going policy of the first eighteen months had to be reversed, it aggravated the depression of 1819. As we saw in Chapters VII and VIII there was some truth in these allegations. The role of the Bank was a minor one: the major responsibilities for these gyrations in prices and business were the course of events in the world commodity markets and the fiscal policies of the United States.

Cheves was said to have been "no banker." His conservatism was alleged to have aggravated the depression of the early 1820's. There is not much foundation for this belief. As soon as it reasonably could after it had gotten itself into a position of safety, the Bank bought government securities. This in no way, as has sometimes been alleged, deprived the business community of needed bank credit. By 1821, the directors were willing to take a friendly view of loans secured by the Bank's stock. This was certainly not restrictive on the amount of Bank credit. On the other hand, when one considers the unfortunate experience of the Bank with this type of loan, this reversal of policy indicates that Cheves and his directors were by no means lethargic. If commercial loans were smaller than in earlier periods it should be remembered that business was dull and the demand for loans was not active.

Biddle was charged with having led the country into inflation in 1831. There was a little truth in this idea. Our earlier analysis in Chapter X suggests that this charge was greatly exaggerated. He was accused of creating panic in the last months of 1833 and of carrying out a vindictive and unnecessary period of tight money in the first half of 1834. Our account of these events in Chapter X suggests that responsibility for this was by no means solely with the Bank. For the events of 1833, the Treasury was largely responsible; for the prolonged credit stringency in 1834, the Bank was partly answerable. Again in the latter months of 1835 the Bank was blamed for unsettling the business affairs of the country because of its procedures in closing its affairs. On this occasion the Bank's mistake was that it did not stop making loans altogether. At that time the country was riding the crest of business prosperity and credit contraction by the Bank would have done the country little harm. On the other hand, it might

have enabled the Bank to preserve its solvency in later years. The Bank's enemies paid it the compliment of thinking that it had more power over prices and business developments than it actually had.

Far from ignoring its responsibilities for moderating the swings of prices and business, the Bank in its first incarnation explicitly recognized the desirability of doing what it could to moderate excesses. When boom conditions stimulated imports, it was recognized that quantitative as well as qualitative control over credit to importers was generally desirable. When panic conditions prevailed, Biddle's thought (and to a less degree his practice) was to put up a bold front and expand loans. As we saw above, these ideas were partially applied in the 1825–1826 financial crisis. The Bank of England's timid handling of its affairs in this crisis came in for scornful criticism, and with reason. Even after the Bank had ceased to be a federal institution, it assumed some responsibilities in crisis periods, for example, in April and May 1837.

The available techniques of control consisted of keeping the state banks generally in debt to the Bank and at the same time keeping them uneasily aware that indiscreet credit policies on their part would lead to demands for redemption of balances due in cash. The indebtedness of the state banks to the Bank was controlled, to some extent, by variation in the Bank's own loans, by the sale of the Bank's securities, by the sale of foreign exchange, and in the later and less fortunate days of the Bank by means of the sale of post notes. Systematic presentation of bank notes for redemption in specie also served to control the activities of the state banks.

On the expansive side, the Bank, when it saw fit, aided state banks with loans in times of crisis. It was in no way obligated to do this and aid was forthcoming at the convenience of the Bank rather than as a matter of responsible policy. State banks were probably helped over minor credit crises through the Bank's willingness and ability to borrow in the foreign short-term money market.

In dealing with the public, the Bank could not effect change by means of raising discount rates above 6 per cent. On one or more occasions the rate was lowered below this figure but this was done primarily with a view of increasing the Bank's loans and earnings rather than as a part of a scheme of control. The

Bank sold its holdings of government bonds on two occasions (see Chapter IX). This was not the counterpart of what is now called open-market operations but rather an effort to keep the state banks in its debt and avoid embarrassing demands for cash.[45] There is no evidence that the Bank and its officers wanted to use either discount rate variation or the alternate purchase and sale of government securities as a control device. Even had they wished, they would not have been able to do so because of the limitations imposed by general statutes on the discount rates which banks could legally charge and by the limitations on trading in government securities contained in the Bank's own charter.

The indictment of the Bank for its economic performance and administrative techniques prior to 1836 was not qualitatively impressive. Many of the charges were absurd; some were valid. Many of them were a mixture of truth and misunderstanding of the kind of performance possible by an institution situated as was the Bank. On the contrary, the constructive achievements of the Bank from 1819 to 1834 were of a high order. Had the institution been allowed to develop, as it gave promise of doing, the United States would have had an effective banking system long before it did. The benefits would have been substantial.

At the time the Bank was passing from the financial scene, some wondered if the institution had been as harmful to the public interest as its enemies alleged. A resolution of the Kentucky legislature of March 5, 1838 attributed the "derangement in the currency and domestic exchanges" to the

> improvident, rash, and arbitrary acts and proceedings of the executive branch of the Federal Government; commencing with the veto of the bill to recharter the late Bank of the United States, followed by the removal of the deposites of the public money, contrary to law . . . and terminating in the Treasury order, exacting specie in all payments for public lands.[46]

In 1842, the governor of Jackson's home state wrote that, "during the existence of the Bank of the United States, as far as our monetary affairs were concerned, all was calm and quiet. The prices of property, and the produce of labor, were firm and steady; labor received its just reward and the march of the country to prosperity was firm and decided."[47] Viewed immediately after its demise, the Bank seemed less at fault than "the injudicious administration of the General Government."

The Bank's failure in 1841 did more to give it a bad name than all the diatribes of its enemies. Some of the censure heaped upon it was deserved, although, as Gallatin pointed out, it is a mistake to blame the Bank as it functioned before 1836 for errors committed in the last five years of its existence. Some of the Bank's troubles arose from causes beyond its control: policies of the federal government, policies of state banks, and, most important of all, changes in the international capital market. How did it happen that the Bank was so managed that it did not survive?

The winding up of the affairs of the old Bank decreased the liquidity of the institution. Long-dated promises to pay from other banks were, generally speaking, good assets, but they were far from being ready cash or the equivalent. As we have seen, this type of asset was one of the circumstances which led the Bank to turn to the London money market. This borrowing was not only expensive but it led to periodic crises in the affairs of the Bank.

Stimulated by the financial crisis of 1837 and the widespread tendency to turn to the London long-term capital market, the Bank went into the investment banking business. It arranged for the sale of securities at the Agency: in time it owned large amounts of securities. When the institution failed, it possessed over $20,000,000 of state bonds. These were practically unsalable and most of them were pledged as collateral for loans in Europe. Over $6,000,000 of these were Pennsylvania issues acquired in accordance with the provisions of the 1836 charter, and were ultimately sold at an average loss of 47 per cent. Pennsylvania, in addition to involving the Bank in this loss, also embarrassed the Bank by exercising its right to sell its security issues to the Bank at times when it was inconvenient for the Bank to acquire this type of asset. Even more disastrous was the acquisition of the Mississippi 5's. As we saw earlier, this originated in the Bank's connection with the cotton states and its interest both as stockholder and depositor in state banks along the Gulf Coast. Direct solicitation led to the acquisition of Illinois bonds and (possibly) Maryland bonds. The Indiana and Michigan issues came to the Bank through its connection with the Bank's subsidiary, the Morris Canal and Banking Company. The struggle for liquidity after 1836 led the Bank to acquire stocks (on what sometimes looked

like a moderate down-payment) and mortgage them in London for liquid Sterling assets.

In 1841, the Bank owned about $4,200,000 worth of public utility stocks, $4,000,000 of which were of Pennsylvania corporations. The Bank had been compelled to purchase $675,000 worth of these by the terms of its charter. Some or perhaps most of the rest were received in settlement of claims due from borrowers. In 1840, Nicholas Biddle borrowed about $161,000 for which he settled by turning over to the Bank various Pennsylvania stocks and lands. In the three and a half years following July 1837, Jaudon borrowed over half a million dollars from the Bank and settled by delivering stocks. Jaudon, Cowperthwaite, and Andrews engaged in an investment venture on joint account with a view to speculating in stocks of the Camden and Amboy Railroad, the Philadelphia, Wilmington and Baltimore Railroad, the Grand Gulf Railway and Banking Company, and perhaps the West Feleciana Railroad and Banking Company. Andrews, and perhaps Jaudon, settled their debts to the Bank by delivering these stocks. They appear to have been taken at an excessive valuation. When the Bank failed they were still in its portfolio. Some public-utility and railway stocks were also acquired from the Bank's financially dependent and incorrigibly speculative security affiliate, the Morris Canal and Banking Company. Contemporaries held the Bank's officers responsible for a sizable share of the Bank's losses. They appear to have originated in the not uncommon practice in these days of speculating with a view to taking the profits if prices rose and using them for settlement with the Bank if the venture was unfortunate.

Another asset which turned out to be completely worthless was the prepaid expense of $2,500,000, the bonus for the charter. In addition to this the Bank paid the state of Pennsylvania another $500,000 of annual payments between 1836 and 1841 so that the total sum paid for the charter was in fact $3,000,000. By 1839, Biddle had reversed his earlier optimistic opinion of the charter. To Penrose he wrote: "we did not examine very nicely all that was given for the charter." [48] Years later, the stockholders petitioned the state for relief from some of their obligations. In making this suggestion they begged the state not to require the stockholders to deliver blood as well as the pound of flesh. The state drove a very hard bargain for the charter. This was another way in which Pennsylvania contributed to the failure of the Bank.

Another important group of assets were stocks of and deposits in southern banks. More than half of these five and a half millions of assets were deposits and bank notes and a little less than half were stocks. Many turned out to be worth only a small fraction of their book value. A few of the stocks were purchased as a part of Biddle's attempt to acquire subsidiaries. Some were acquired through the Bank's transactions in cotton bills of exchange. The Bank's orientation toward the South under its "old" charter was not one which the officers and directors of the Pennsylvania institution wished to abandon.

Bad judgment and perhaps some bad faith account for the poor quality of the Bank's investment portfolio and its ultimate demise. Was it bad faith or bad judgment that was revealed by a letter from Biddle to Jaudon saying that he was sending some bonds of the Cumberland Valley Rail Road to sell because he wished to befriend three men "in charge" of the railroad who were "useful to the Bank at Harrisburg"? This was certainly not banking pure and simple. It was hardly consistent with Biddle's earlier professed determination to keep the Bank out of politics. About the best that can be said for some of these transactions is that they received the dubious sanction of contemporary usage. The *mores* allegedly can make anything right (for the time being) but they do not necessarily keep a bank from failing.

Writing in 1840, Richard Hildreth most appropriately characterized the period following 1830 as a "new era." Perhaps the extraordinary material prosperity of the period and the continuing availability of foreign capital dulled the awareness of Americans to the dangers in the situation. It will be recalled that, at the very end of the period, Trotter expounded the notion that foreign investments in canals and turnpikes would more or less automatically provide the means of payment of interest and principal. Like the "new era" of the 1920's, this one was accompanied by conditions that warped the judgment of experienced financiers.

Biddle made the serious error of underrating the importance of the hostility of the Bank of England to American financial practices in general and to the novelties introduced by the Bank in particular. This attitude coupled with the obligation to maintain the gold standard left the Bank of England no choice but to act as it did in 1837 and again in 1839. Biddle chose to ignore the well-considered observation of his correspondent Levy, of Baltimore, who told him in 1838 that the events of the previous

year made it clear that "the creditor country at all times has us pretty much in their power." [49] The matter was summed up by Burgess in 1841 when he remarked: "It was because Mr. Biddle had not a clear and perfect comprehension of the power of the Bank of England that the United States' Bank was wrecked." [50]

In assigning responsibilities for these errors, contemporaries pointed almost exclusively at Biddle. Unquestionably the main responsibilities were his. He dominated the Bank: he had ideas: he was president for more than sixteen years. It should not be overlooked, however, that some of the worst tactical blunders were made after Dunlap became president. The directors, too, were not without fault. Generally speaking they played a passive role and did little constructive work in formulating policy. Having selected a president of the institution, they seem to have been content to follow his lead. They signally failed when they selected Dunlap as president at a critical juncture in the Bank's affairs.

The Bank's illiquid assets explain many of its questionable money market techniques. It no longer possessed a large portfolio of steadily maturing business loans. One alternative was to sell post notes. This process helped to make the state banks its debtors, it helped to reduce the quantity of its own bank notes in circulation, and it quite probably served to bring cash from the hoards. In the long run, post notes had the very serious disadvantage of being expensive means of short-term borrowing, of providing a clear-cut quantitative index of the weakness of the Bank, and of antagonizing other banks.

The establishment of the Agency in London was criticized both as a costly venture and an invitation to excessive dependence on the London money market. The expense of carrying on the Agency was, at worst, a minor mistake. Borrowing in Europe at high rates of interest, on the other hand, was an obvious source of loss to the Bank. The Bank's continued dependence on the foreign money market was indeed dangerous and ill-advised. Interestingly enough, however, the Bank was able to borrow from foreigners until the very end, as we saw in Chapter XI. It was the demands of its domestic creditors rather than lack of coöperativeness on the part of foreign creditors that was the outstanding feature of the events in 1841.

Biddle's efforts to sustain or raise the price of cotton beginning in 1837 invited widespread criticism as being speculative in the worst sense of the word. The direct loss from these price

manipulations was slight and probably the Bank lost nothing on them directly. The indirect costs in the form of further entanglements with the cotton banks and in the form of lowered repute in the world's money markets were more serious matters. The idea of using the Bank's credit to sustain the price of cotton and thereby facilitate American debt payments and American return to specie payments was an alarmingly novel one. These manipulations constituted one more count in the Bank of England's indictment of the Bank.

Linked with the manipulation of cotton prices was the opposition to a prompt return to specie payments in 1838 and again in 1840–1841. The argument, as we saw in Chapter XI, was that solvency of business, the nominal fulfillment of business contracts, the level of production and employment, should not be sacrificed to the preservation of metallic standards. Entailing deflation, as this did, the early return to specie payments appeared to be unnecessarily costly in real terms. In arguing this, Biddle was neither stupid nor was he oblivious of his obligations to the community. By contrast, the arguments of his critics seemed dull and narrow minded. Timid conformity was not one of Biddle's faults.

Nevertheless, Biddle was mistaken. His policies would have led to indefinite inconvertibility. This would have invited and almost certainly produced indefinite inflation, banking practices and the pressure for credit creation being what they were. The managed paper currencies implied in his plans and arguments would have been unacceptable to the financiers of England, Holland, and France. An inconvertible paper currency would thus have shut off the supply of foreign capital so urgently needed at this period of American development. Biddle's ideas were open to the objection of "unripe time."

Contemporaries, like Nathan Appleton, accused Biddle of being an unscrupulous rationalizer.[51] His policy of delaying the return to specie convertibility was said to be a screen for the weakness of the Bank arising from his rash administration. It seems likely that Biddle's motives were mixed. In counseling delay, he wanted to protect both the Bank and the community.

What was the Bank's contribution to the general economic development of the United States? Did the Bank's policies (1836–1841), including the much criticized ones, notably aid the cause of internal improvements? The answer is yes. However, the building of canals and railroads would have occurred in any event.

The Bank's role was to assist in making this process go on faster and go farther than it otherwise might have gone. It made British, Dutch, and other European capital available to American energy and enterprise at a critical time.

In 1836–1838 the Bank furthered the importation of specie through its borrowing and bond-selling activities in Europe. In this manner it unconsciously coöperated with its enemy Benton: it helped to secure more gold for the United States. Total net imports of gold and silver into the United States were $18,780,235 in 1836–1838. In the year 1837–1838, Americans imported from England alone almost nine millions of gold. Actually these specie movements were one of the regrettable consequences of the Bank's intervention in the world's capital markets. Prior to 1836, its role in stabilizing the foreign exchanges and moderating the international flow of specie had been admirable; now it, along with other banks, acted in such a way as to exaggerate them. The tactics of the Bank under its Pennsylvania charter made the specie standard work less well and perform in a less stable manner than might otherwise have been the case. The Bank participated in a drama which should have taught the world that metallic standards work best when fluctuations in international capital movements are moderate. This was a contribution to American education which was not fully appreciated by the Bank's contemporaries.

Did the mismanagement of the Bank cause the crisis of 1839? The Bank's lack of foreign funds and its incredibly stupid drafts on Hottinguer and Company may have advanced the date of the financial crisis but they did not cause it. If one must look for a single cause in the field of finance it is to be found in the Bank of England's loss of gold and the financial crisis which this precipitated in London. As a debtor country, the United States would have felt the impact of this event regardless of what the Bank had done. What the Bank contributed to the situation was an additional element of instability. Its none too stable management in its last five years communicated some of its instability to the rest of the money market. It tended to exaggerate the instability that would have been there anyway for reasons unconnected with the Bank. The Bank also contributed to the lengthening of the financial crisis and ensuing general business depression. The failure of so conspicuous an institution to return to specie payments in 1840 impaired the prestige of Americans in the London capital

market. On March 19, 1840, Baring Brothers and Company wrote to Prime, Ward and King, "Our own public seem to have had such a fright about Bank shares and Penn[a] stock that years must elapse before confidence is restored, if ever." [52] The Bank's failure in 1841 and the losses which this brought to many English people must have prolonged their reluctance in later years to invest in American corporate stocks. Henry Burgess thought that American stocks would be unsalable for years to come. There was a period in the early 1840's when it was said that about the only thing that Americans could sell in Europe was land and commodities. The Bank's failure contributed to this loss of good repute but it impaired the good name of America much less seriously than the default of the states. The mistakes of the Bank were one factor but not *the* factor in causing the economic depression that followed 1839.

A temporary decline in the inflow of capital would have occurred quite apart from any developments at the Bank. As early as 1835, Governor Ritter of Pennsylvania warned the legislature against authorizing further commitments for public utilities. He thought that existing projects should be completed and given a chance to prove themselves economically before further enterprises were started.[53] Six years later and six years wiser A. H. Read, the Treasurer of the state, said that the record was one of

> lavishing . . . funds on local and unimportant projects . . . designed only for the benefit of individuals or corporations . . . to be abandoned when their true character developed, after the expenditure of large sums of money: . . . authorizing the construction of railroads, etc. by corporations, parallel to, and in the immediate vicinity of the State improvements, thereby diverting the business of the country from those canals and railroads which have cost us millions.[54]

Foreign investors were bound to become aware at some time that the new transportation facilities needed to be assimilated to the American economy. They would have perceived the errors of the political entrepreneurs in the capitols of the states and the business entrepreneurs in the offices of the railroads and other business undertakings. With a changing evaluation of the future of new enterprises, foreign investment would have been significantly reduced from the heights attained in 1836–1839. On the other side of the economic picture, a few of the states were beginning to show signs of satiety in their appetite for internal improvements. At some period they would have become less disposed to invite

foreign capital to America. Even if the policies of the Bank had been eminently correct and ultraconservative, some reversal of international capital movements would have occurred in 1840 or shortly thereafter.

What were the longer-run consequences of the failure of the Bank? The failure of the Bank in 1841 certainly strengthened the hand of the enemies of central banking. Amos Kendall's comment is significant:

> In common with the other State banks it stopped payment in 1837, and never resumed [*sic*]. Though declaring its entire individual ability, it discouraged a general return to specie payments to the last, and when the other banks could no longer be restrained it threw off the mask and exposed its insolvency. . . So signal and awful was the destruction of the Bank and its ambitious President, so impressive was the lesson it taught, that scarcely a voice has since been raised in favor of a national bank, and almost with one voice the country has borne testimony not only to the purity and firmness of the hero President, but to his wisdom and sagacity.[55]

Kendall's statement doubtless reflects a state of mind that long persisted. Many years later Professor Dunbar, in describing the state of public opinion prior to the formation of the National Banking System, said: "Discontent with existing systems . . . took the form of opposition to the existence of any banks of issue at all; the party then apparently holding permanent control of the national administration cherished with pride the traditions of its victorious struggle with the United States Bank, and of its devotion to a gold currency. . ." [56]

Another consequence of the struggle with the Bank was the subsequent trial of the independent treasury system by the United States Government. With the suspicion cast upon the idea of a national bank and the later unhappy experience with the state depository banks, some such arrangement was inevitable. Moreover, the independent treasury was completely in line with the views of Amos Kendall. Experience soon demonstrated that a central bank was vastly superior to the independent treasury as a fiscal agency for the government.

Writing in 1841, Gallatin viewed the failure to recharter the Bank as a mistake. Jackson's efforts to improve the currency had produced quite the opposite results. He (Jackson) "found the currency of the country in a sound and left it in a deplorable state. . ." By 1841, owing to the combined mistakes of both the government and the Bank, he said, "the currency of the United

States is worse than that of any other country." The result was to "leave the currency at the mercy of State banks and State legislation." [57] Banking reform in this instance illustrated the not unfamiliar idea that good intentions do not always produce fortunate results.

In the sixty years that elapsed between the incorporation of the first bank in this country, the Bank of North America, and the failure of the Second Bank of the United States, there occurred a remarkable development in both banking techniques and ideas about banking. The rules of banking were incompletely defined in the early days of the Bank but the Bank helped to define them. As it turned out, some of its rules were well in advance of the times. As we have seen, this promising start was brought to a close in 1841 by the hostility of its political enemies and the mistakes of its friends. From being one of the most financially inventive countries in the world, the United States was transformed into one of the most backward in the years following the demise of the Second Bank of the United States.

# NOTES

# Bibliographical Note

From the extensive bibliography which might be compiled on the Second Bank of the United States and the economic developments of which it was a part, the following have been found especially useful. First and most important is R. C. H. Catterall's *The Second Bank of the United States* (Chicago, 1903). This pioneer work is an exhaustive treatment of the Bank while operating under a federal charter. Special emphasis is given to the war on the Bank. The bibliography in Catterall's book is a comprehensive guide to the sources of information about the Bank and is particularly useful in connection with the federal government documents. Almost no attention is given to the Bank in its years as a Pennsylvania corporation. The book suffers from insufficient use of statistical material; it does not give adequate attention to the Bank's relation to the retirement of the national debt and to the difficulties connected with international finance. D. R. Dewey's *The Second United States Bank* (Washington: Government Printing Office, 1910) deals exhaustively with the administrative aspects of the Bank. This study was written as one of the National Monetary Commission studies. A most useful supplement to these volumes is Fritz Redlich's *The Molding of American Banking: Men and Ideas* (New York: Hafner Publishing Company, Inc., 1947). This too-little-known volume describes the growth of ideas about central banking. Redlich emphasizes the idea that historical development is determined by men and ideas rather than impersonal forces. American thought and leadership was well in the vanguard of central banking in the days of Biddle. This volume contains an extensive bibliography which admirably supplements the bibliography given in Catterall. Recent writing about the Bank includes the penetrating journal articles by Bray Hammond, formerly Assistant Secretary of the Board of Governors of the Federal Reserve System. Of these, perhaps the most important are: "Jackson, Biddle, and the Bank of the United States," *Journal of Economic History*, VII (1947), 1–23, and "Long and Short Term Credit in Early American Banking," *Quarterly Journal of Economics*, XLIX (1934–1935), 79–103. R. C. McGrane's *The Correspondence of Nicholas Biddle* (Boston and New York, 1919) is most useful for a study of the Bank although this volume is to some extent superseded by the complete Biddle Papers now available on microfilm.

The material on general economic conditions in the United States at the time of the Bank is scattered through many sources. *The Historical Statistics of the United States, 1789–1945* (Washington: Government Printing Office, 1949) is a useful compendium. Smith and Cole's *Fluctuations in American Business, 1790–1860* (Cambridge: Harvard University Press, 1935) contains useful material. *Business Annals* (New York: National Bureau of Eco-

nomic Research, Inc., 1926) by W. L. Thorp and W. C. Mitchell is a compact summary of the changing phases of the business cycle in a number of countries.

In the field of more general ideas about banking and public policy relating to the Bank, Sister M. Grace Madeleine's *Monetary and Banking Theories of Jacksonian Democracy* (Philadelphia: The Dolphin Press, 1943) is a scholarly treatment of the subject. It is especially to be commended for the temperate manner in which it presents and evaluates the Jacksonian views of this subject. Harry E. Miller's *Banking Theories in the United States before 1860* (Cambridge: Harvard University Press, 1927) is a standard work in this field. The *Age of Jackson* (Boston: Little, Brown and Company, 1947), by A. M. Schlesinger, Jr., gives a lively account of the various social and political movements and ideological ferments of the period. On banking it is not useful.

Of the material on foreign developments in this period, Sir John Clapham's *The Bank of England, a History*, 2 vols. (Cambridge: The University Press, 1945), is of very great importance. These volumes make long-wanted information about the Bank of England available to scholars. The author had the inestimable advantage over previous writers in being able to consult the Bank's papers. *The Migration of British Capital to 1875* (New York: Knopf, 1927), by L. H. Jenks, is a pioneer work describing vividly and in detail the ebb and flow of British capital. R. W. Hidy's *The House of Baring in American Trade and Finance* (Cambridge: Harvard University Press, 1949) is an exhaustive and scholarly volume which makes available the facts and ideas hitherto buried in the mass of Baring Papers in Ottawa. Hidy's service to scholarship is apparent to anyone who has worked with these papers. Lastly, even a brief bibliography cannot omit W. W. Rostow's *British Economy in the Nineteenth Century* (Oxford: At the Clarendon Press, 1948). The author brings together a mass of detail about economic trends and cycles in England simplified to the extent necessary for intelligibility and illuminated by an understanding of modern economic thought.

Students will find a useful supplement to the printed materials of the federal government in the documents of the states. It is not as widely known as perhaps it should be that the Massachusetts State Library (Boston) has a collection of these publications remarkable for the number of states covered and the completeness of the sets.

In these days when papers and archive materials are becoming generally accessible through the use of microfilm some discussion of documentary sources may be helpful. The author has consulted many collections of papers of which the following are the more important:

*Biddle Papers* (Manuscripts Division, Library of Congress, Washington). These papers consist of many volumes of letters to Nicholas Biddle and several volumes of fair copies of letters from him. Most of the letters were written during the period when he was president of the Bank. These papers

are generally informing about the Bank and related affairs. Unfortunately, even so literate a person as Nicholas Biddle was often elliptical in his references and sometimes exasperatingly vague in describing technical matters.

In quoting these papers the "&" sign has been replaced by "and," dashes have been replaced by commas when appropriate, and the excessive use of capital letters has been modified into closer accord with modern usage.

*Biddle Family Papers* (Manuscripts Division, Library of Congress, Washington). This collection is primarily informative about family rather than banking matters.

*Letters from Cheves and Biddle* (Houghton Library, Harvard University, Cambridge). These letters deal with the affairs of the Office of Discount and Deposit at Washington, D. C., up to 1836. They serve as a useful supplement to the papers on deposit in the Library of Congress.

*Minute Book of the Office of Discount and Deposit at Pittsburgh* (Library of the University of Pennsylvania, Philadelphia). These papers cover only the years 1819 and 1820.

*Register of the Treasury of the United States Papers* (National Archives, Treasury Section, Washington). Valuable statistical series and tables are scattered through several volumes.

*United States Treasury, Letters to Banks* (National Archives). These numerous volumes throw some light on the affairs of individual banks as well as on the general banking situation.

*United States Treasury, Letters to Foreign Banks* (National Archives). These volumes contain fair copies of letters to the foreign agents of the Treasury, first Baring Brothers and later Rothschilds. Volume I (back-title: Barings) covers the period from 1803 to 1833; Volume II, from 1834 to 1843.

*United States Treasury, Letters from Foreign Bankers.* The letters from 1803 to 1833 are in the Manuscripts Division of the Library of Congress. The Letters from 1833 to 1844 are in the National Archives.

*Baring Papers* (Public Archives of Canada, Ottawa). This collection is extensive. While this material throws light on international finance generally its particular orientation is toward America. These papers provide factual data and, equally important, they give the interpretations of men and events as viewed by such intelligent observers as Joshua Bates, the American partner of Baring Brothers, and T. W. Ward, their American agent.

*Alexander Brown Papers* (Alexander Brown & Sons, Baltimore). These papers are extensive. They give a detailed picture of a great merchant banking house.

*Dreer Papers* (Library of the Historical Society of Pennsylvania, Philadelphia, Pennsylvania). This collection contains a few items of importance for the early history of the Bank.

*Etting Papers* (Library of the Historical Society of Pennsylvania).

*Liquidation Papers of the Second Bank of the United States* (Library

of the Historical Society of Pennsylvania). This is a very large collection of both manuscript and printed material. A complete disentangling of the story of the liquidation of the Bank from this source alone would be difficult.

*Jones Papers* (Library of the Historical Society of Pennsylvania). These papers are not extensive. Unfortunately, Jones was not an effective writer and therefore these papers do not yield much insight into the problems of the Bank in its early years.

*Cheves Papers* (Library of the South Carolina Historical Society, Charleston, S. C.). These papers, in so far as they deal with the Bank, are almost entirely letters to Cheves.

*Gilpin Papers* (Library of the Historical Society of Pennsylvania). Volume 24 of these papers contains the material dealing with the Bank and Gilpin's relations to it. There is little information here that cannot be easily obtained from printed sources.

*Minute Books of the Philadelphia* [National] *Bank* (The Philadelphia National Bank, Philadelphia). These volumes are useful for getting an understanding of the operation of an important state bank and competitor of the Bank. Like other minute books, those of this bank merely preserved the decisions of the Board of Directors. The recording secretaries of early days were regrettably unwilling to record the debate which preceded a decision. The writer wishes to acknowledge the courtesies extended to him by the officers of this bank in opening their old records for his inspection.

*Minute Books of the Bank of the Manhattan Company* (Bank of the Manhattan Company, New York). The writer wishes to express his thanks to the officers of the bank for making the above records accessible to him.

*Massachusetts Bank Directors, Minutes of the* (Baker Library, Harvard Business School, Boston).

*Suffolk Bank Directors Minutes* (Baker Library).

*Papers and Records of the* [New York] *State* [National] *Bank* (The New York State National Bank, Albany).

*The Azariah Flagg Papers* (New York State Library, Albany). These papers contain the first report on the debts of the states.

*Foreign Office Papers* (Public Record Office, London). These papers contain hundreds of volumes of letters and reports from British consuls in the United States. On the whole the Bond, Ogilby, and Robertson letters are the most useful.

## Notes to Chapter I: Introduction

[1] K. L. Brown, "Stephen Girard, Promoter of the Second Bank of the United States," *Journal of Economic History*, II (1942), 125 ff. Raymond Walters, Jr., "The Origins of the Second Bank of the United States," *Journal of Political Economy*, LIII (1945), 115–131.

[2] The important political developments in the United States will be mentioned in the text at the points where they are relevant to the history of the Bank. The important foreign developments relevant to the Bank's history were: demobilization and return to peaceful trade following 1815, the return to metallic currencies and deflation in Europe generally. Especially important was the return to specie convertibility in England which occurred by stages and was virtually complete by May 1821 with gold purchased by the Bank of England at 3/17/10½. The independence of the South American countries in and about 1820 opened up to world trade and investment some opportunities which definitely changed the pattern of specie movements, commodity trade, and the direction of British foreign investments. During many of the years covered by this narrative, eastern Europe and the Iberian Peninsula were in a disturbed state but this had only a slight and indirect effect upon the United States. The revolution in France had little apparent effect on America. In England the political agitations that attended the passage of the Reform Bill of 1832 were noted by American bankers. Biddle queried whether these events might affect the availability of foreign capital. Some hostility developed in the United States toward France over the failure of the Chamber of Deputies to appropriate funds for payment of the indemnity due to the United States. In 1839, diplomatic relations between Great Britain and the United States were strained over a dispute about the boundary between Maine and New Brunswick. Some financiers took a grave view of this matter but few thought that there would be war. The year 1839 saw the beginning of the Opium War and there were occasional allegations that this was important to American finance because of its effect upon the English money market.

[3] J. S. Bassett, *Correspondence of Andrew Jackson* (Washington, 1926), I, 70 and 84.

[4] T. P. Abernethy, "The Early Development of Commerce and Banking in Tennessee," *The Mississippi Valley Historical Review*, XIV (1927), 311–325.

[5] J. C. Richardson, *Messages and Papers of the Presidents*, II, 590–591.

[6] A. Kendall, *Autobiography* (William Stickney, ed.; Boston, 1872), p. 232.

[7] *Ibid.*, p. 224.

[8] *Ibid.*, p. 204.

[9] *Ibid.*, p. 515.

[10] *Ibid.*, p. 516.

[11] From 1819 to 1829, Kentucky bank notes were at a discount in Phil-

adelphia ranging from 20 to 70 per cent. U. S., *Sen. Doc. 457*, 25 Cong., 2 sess., pp. 8–9.

[12] The quotation is taken from Charles Warren, *The Supreme Court in United States History* (Boston: Little, Brown and Company, 1947), I, 642–643. Warren's *History* is most illuminating on the relations between the Bank and the general growth in power of the government in Washington.

[13] C. H. McClure, "Early Opposition to Thomas Hart Benton," *Missouri Historical Review*, X (1916), 151–196.

[14] U. S., *House Reports*, *460*, 22 Cong., 1 sess., 362 and 363.

[15] Biddle to Gallatin, July 29, 1830, Biddle Papers.

[16] Biddle to Smith, Jan. 25, 1830, Biddle Papers.

[17] Biddle to Gallatin, July 29, 1830, Biddle Papers. Biddle's comment on Ricardo's *Plan for a National Bank* ran as follows: "His plan would, I think, not have suited England and would be entirely misplaced here."

[18] Biddle to Binney, Jan. 25, 1832, Biddle Papers. Biddle used Garnier's translation of the *Wealth of Nations*!

[19] Biddle to Barbour, July 11, 1833, Biddle Papers.

[20] Biddle's professed beliefs did not in this, as in some other instances, accord perfectly with his behavior. In 1830 he wrote: "My maxim in regard to these matters is never to contradict any thing in a newspaper. If you prove that what is said today is false, the next day something else is said, and if you do not prove that false also, your silence will be taken as an admission." At the time that this was written, he said he was relying on the "constitutional organs of government" to expose the errors in the utterances of President Jackson. Biddle to Smith, Apr. 22, 1830, Biddle Papers.

[21] Edgar Allan Poe invited Biddle to contribute to the *Southern Literary Messenger*. Poe to Biddle, June 7, 1836, Biddle Papers.

[22] Biddle was a government-appointed director from 1819 through 1821 and again from 1823 through 1832. Beginning in 1829, he held a stockholder-elected directorship until 1839. U. S., *House Exec. Doc. 460*, 22 Cong., 1 sess., pp. 285–290.

[23] R. C. McGrane, *The Correspondence of Nicholas Biddle* (Boston, 1919), p. 27.

[24] For example, Professor Bassett, editor of President Jackson's Correspondence, writes that the Nashville branch was established in 1827 to conciliate Jackson whom Biddle even then thought would be the next president. This certainly looked like playing politics.

Professor Abernethy, in his illuminating article on early banking in Tennessee, points out that banking and currency had been in a turmoil in that state since 1819. A resumption of specie payments in that state took place in Sept. 1826 but soon afterward the Nashville Bank could not meet the demands on it and it closed. In the entire state only one important bank was left: the private bank of Yeatman, Woods and Co. At that time Tennessee had an extensive trade in agricultural products and there was need of a bank to handle the domestic exchange business. Land sales were significantly large and the Treasury needed a depository in that area. At this juncture, the legislature of Tennessee pointedly repealed such portion of a statute which had been on the books since 1817 which imposed a tax of $50,000 a year on branches of the Bank of the United States in Tennessee.

This repeal became effective Nov. 25, 1826. The Governor invited the Bank to establish a branch and an impressive list of merchants petitioned to the same effect. Within a month of the repeal of the anti-Bank statute, General Cadwalader was on his way to Tennessee to investigate for the Bank. His letter of Mar. 1, 1827 did not mention political considerations but did say, "I am clearly of the opinion that an office at Nashville will be perhaps the most profitable one of any west of the mountains (N. Orleans not included)." Cadwalader to Biddle, March 1, 1827, Biddle Papers.

Political motives may have played their part in the establishment of the Nashville branch, but the data that have come to the attention of this writer do not bear out this allegation. The documentary evidence suggests that profit-making and service as a government depository were the main considerations in the founding of the Nashville branch.

[25] N. Biddle, *Address to the Alumni of Princeton University*, Sept. 30, 1835, p. 16.

[26] N. Biddle, *Address on the Laying of the Corner Stone of Girard College*, July 4, 1833, p. 22.

[27] U. S., *Register of Debates* (*1833–34*), 23 Cong., 1 sess., Pt. III of Vol. X, p. 3493.

[28] J. T. Morse, *John Quincy Adams* (Boston, 1896), p. 242.

[29] B. Hammond, "Jackson, Biddle and the Bank," *Journal of Economic History* VII (1947), 23.

[30] W. G. Sumner, *Andrew Jackson* (Boston, 1910), p. 313.

[31] The replies to Cambreleng represent the kind of thing Sumner probably had in mind. See U. S., *House Reports*, *460*, 22 Cong., 1 sess., pp. 30–42, 333–367.

[32] Fritz Redlich, *The Molding of American Banking* (New York, 1947), p. 121.

## Notes to Chapter II: Production and Trade

[1] A. H. Cole, "Cyclical and Sectional Variations in the Sale of Public Lands, 1816–1860," *The Review of Economic Statistics*, IX, 51.

[2] *American Almanac and Repository of Useful Information* (1841), p. 165.

[3] *Niles' Register*, LXI (1841–1842), 21. Not all receipts were for services rendered by the canal, but most of them were. New York Assembly Documents, 1839, II, *Doc. 26*.

[4] Ohio, *Journal of the House of Representatives*, 1819–1820, pp. 11–12. Message of Governor E. A. Brown, Dec. 7, 1819.

[5] *Hunt's Merchants' Magazine*, V (1841), 284.

[6] *Hunt's Merchants' Magazine*, IV (1841), 481.

[7] *American Almanac* (1841), p. 165.

[8] U. S. Treasury, "Receipts and Statements of the Register" (MS), National Archives, Washington, VIII, 196.

[9] *Ibid.*, p. 237.

[10] *Ibid.*, p. 210.

[11] Mr. Flagg, Comptroller for the State of New York, estimated that 123 millions had been issued by June 1838 although 170 had been authorized. Flagg's inquiries were the first of a series of such inquiries. They were the by-product of New York's recently established bond secured currency. Azariah Flagg Papers (MS), New York State Library, Albany.

[12] Alexander Trotter, *Observations on the Financial Position and Credit of Such of the States of the North American Union as Have Contracted Public Debts* (London, 1839), p. 73.

[13] Pennsylvania, *House Journal*, 1843, II, 26. Report of the Treasurer, Jan. 4, 1843.

[14] Gallatin attributed this to "the difference of capital wanted for the employment of slave and free labor respectively." Gallatin, *Writings*, III, 388. The facts were more complex than this analysis suggests. Not the least important factor was the use made of the borrowed funds in promoting the permanent economic strength of the areas.

[15] B. U. Ratchford, *American State Debts* (Durham, 1941), pp. 105–114.

[16] *Ibid.*, p. 119.

[17] United States, Commissioner of Navigation, *Annual Report*, 1921, p. 122.

[18] *Parliamentary Papers*, 1844 (545), VIII, 4, pp. 129–130.

[19] U. S., *Sen. Doc.* 2, 26 Cong., 1 sess., I, 49–50.

[20] *Ibid.*, pp. 55–57.

[21] *London Mercantile Price Current*. The quotation is from *Niles' Register*, LVI (1839), 349–350.

[22] U. S., *Sen. Doc.* 2, 26 Cong., 1 sess., pp. 39–44.

[23] I am indebted to Professor Milton Heath of the University of North Carolina for valuable information regarding the channels of trade in the United States.

[24] *New York Spectator*, Mar. 24, 1834. Report of the Union Committee of New York Bankers, Mar. 20, 1834.

[25] F. M. Jones, *Middlemen in the Domestic Trade of the United States, 1800–1860* (Urbana, 1937), pp. 33–34.

[26] Biddle to Lenox, Feb. 9, 1832, Biddle Papers.

[27] *Hazard's Register of Pennsylvania*, VIII (1831), 188.

[28] W. C. Kessler, "Incorporations in New England," *Journal of Economic History*, VIII (1948), 50.

[29] Massachusetts, *Annual Report of the Banking Commissioners, 1861*, pp. 182–183.

[30] New York, *Senate Doc.*, 1836, *Doc. 54*; 1837, *Doc. 31*; 1838, *Doc. 71*; and 1839, *Doc. 62*. E. W. Keyes, *A History of Savings Banks in the United States* (New York, 1878), II, 177. R. W. Thon, *Mutual Savings Banks in Baltimore* (Baltimore, 1935), p. 20.

[31] The federal government unwittingly encouraged land speculation during the boom period following 1815 by permitting the purchase of public lands on credit. So many of these lands were forfeited in 1819 because of failure to complete payments that Congress on March 30, 1820 suspended forfeiture for another year. Shortly thereafter Congress provided that there should be no further sales on credit after July 1, 1820.

[32] "Most sudden and extreme fluctuations in the nominal value of shares,"

was noted by an investigating committee in Massachusetts. "The first evil . . . is one of recent origin in this Commonwealth. . . This is the application for corporate privileges, by individuals having no acquaintance with the business for whose prosecution they request a charter, and no intention of honestly pursuing it; but solely for the purpose of issuing scrip, with little or no actual value, and availing themselves of the tricks and intrigues of the Exchange, to dispose of it at a profitable advance. . . Another obvious evil against which it is desirable to provide by statute, is the sale of stock *upon time*; a kind of transaction by which any one, not holding a single share, is enabled to contract for the delivery of any number of shares of a certain stock, at a fixed price, on a future day. This is essentially a wager between the parties, that a certain stock will be at a greater or less price, at a period more or less remote. It is, of course, a mere gambling transaction, and so prohibited by our common law." This was worse than ordinary gambling, said the Committee, because "by their sales upon time, all the stockholders suffer." *Massachusetts Legislative Papers*, House, 1836, *Doc. 38*, pp. 3–5.

[83] The federal government permitted importers to give bonds for the payment of duties. Payment of duties were thus postponable by several months, a year, or more. An American merchant, with good connections and well established credit in England and with the ability to give duty bonds to the Treasury, was thus in a position to take speculative chances on a very narrow margin. United States Treasury, *Annual Report*, Dec. 1829, pp. 9–12. See, also, D. Raymond, *Elements of Political Economy* (Baltimore, 1823), pp. 325–327.

[84] U. S., *Annals of Congress*, 14 Cong., 1 sess., (1815–1816), p. 241.

## Notes to Chapter III: Money and Banking

[1] U. S., *House Doc.*, 92, 15 Cong., 2 sess., Insert XLVII.

[2] *Ibid.* Statement of Apr. 30, 1817.

[3] Alexander Brown to Cheves, Nov. 17, 1819, Cheves Papers. Contemporaries also observed that stockholder indifference made the control of corporations by "designing men" easier. See the Report of the Banking Commissioner of Massachusetts, Dec. 31, 1839. Massachusetts Legislative Papers, Senate, 1840, *Doc.* 7, p. 21.

[4] U. S., *Statutes at Large*, III, 266–277.

[5] F. Redlich, *The Molding of American Banking*, pp. 55–64.

[6] Biddle to Greene, Apr. 27, 1830, Biddle Papers.

[7] Biddle to Hay, Jan. 13, 1824, Biddle Papers.

[8] For another view see J. M. Chapman and R. B. Westerfield, *Branch Banking* (New York, 1942), p. 31.

[9] By 1832, statements were received weekly from the branches. A general statement was prepared monthly and sent to the Treasury. These monthly reports were published by order of Congress in the serial set of United States government documents. They consisted of three parts: a summary

balance sheet for the Bank as a whole, detailed reports of assets and liabilities of the branches and, especially in the later years, a brief list of miscellaneous supplementary statistics. The general summary was prepared from data supplied by the Philadelphia office on or near the first of the month and returns from the branches prepared several days or weeks before. The summary was, therefore, not an instantaneous picture of the Bank's condition. This accounts for certain discrepancies in the interbranch accounts. Minor inaccuracies arose from the practice of a few of the offices of submitting reports in round numbers.

Tyler's Report (U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., pp. 204 ff.) contains a useful compilation of monthly Bank statistics. Even in these data there are a number of annoying ambiguities and obscurities. The important series "Balances with State banks" does not make perfectly clear whether these balances were debit or credit balances. The series entitled "Barings, Hopes, etc., and foreign bills" was found to include various items at various dates. Sometimes the series merely included balances with foreign bankers, sometimes it included foreign bills and sometimes it was merely the latter. Detailed monthly returns of the Bank mention an indebtedness to Barings, Hopes, and Hottinguer of $254,895.20 in Apr. 1831 and of $920,777.43 in May 1831. The consolidated returns in Tyler's report apparently overlooked these items. In this study the data for the period from 1819 to 1824 have been taken from this source. For other dates the statistics were compiled from the monthly returns of the Bank, which generally speaking, were unambiguous.

The statistical data for the liquidation period are confusing and sometimes contradictory. To avoid a specious impression of accuracy, the figures have been rounded off.

[10] After 1836 the Bank's statements concealed the fact that its extensive holdings of stocks and bonds were grossly overvalued. They were carried at par or at the cost of acquisition which was much in excess of the market value. The item "due from banks" did not reveal the fact that some of these accounts were uncollectible.

[11] "The Govt. directs the payment of a six per cent loan for instance on the 1st July, at which day many millions are to be disbursed. To prepare for this payment by accumulating funds, would require that the Bank should curtail its discounts, which would oblige the State banks to do the same thing, so that a scarcity of money would be produced, perhaps an extreme pressure, until the 1st day of July, when an immense amount of money would be thrown into the market to seek investment, causing as sudden a rise in the funds as there had been a previous depression. To avoid these fluctuations the Bank has said to the fund holders instead of waiting for the last moment, when there will be a great press for investment, look about you and wherever you find an object of investment, bring your stock to the Bank; and although the Bank cannot purchase the stock, it will lend the amount on your note pay* on the 1st of July, secured collaterally by a pledge of the certificate, and it will lend it to you at 5 per cent, as it is only in fact cashing the drafts of the Govt. on the Bank. . . This is one of the most beautiful of our operations, enabling the Bank to go over a pay day of six or seven millions of dollars without the slightest change in its daily busi-

ness or the least shock to the business of the country." Biddle to Hopkinson, Nov. 2, 1830, Biddle Papers.

[12] Biddle to Jaudon, Nov. 3, 1830 and Biddle to Hemphill, Mar. 18, 1830, Biddle Papers.

[13] *Hazard's Register of Pennsylvania*, VIII (1831), 187.

[14] U. S., *House Reports, 460*, 22 Cong., 1 sess., pp. 316–321.

[15] Biddle to Gallatin, July 29, 1830, Biddle Papers.

[16] Writing to Lenox on Sept. 6, 1827, Biddle said: "My impression is that exchange ought to rise. For that reason we have been in no hurry to part with our stock of sterling bills – but have reserved them for the better price which we expect."

[17] Biddle to Frothingham, Mar. 31, 1826, Biddle Papers.

[18] The less well known firm of Hale and Davidson was also mentioned.

[19] Nott and West to Cheves, Mar. 30, 1822, Cheves Papers.

[20] Biddle to Hayne, Apr. 14, 1834, Biddle Papers.

[21] Biddle to Robinson, Aug. 8, 1827, Biddle Papers.

[22] Biddle to Smith, Jan. 25, 1830, Biddle Papers.

[23] Biddle to Prime, Feb. 6, 1829, Biddle Papers.

[24] The federal government retained Baring Brothers and Company as its fiscal agent in London until the end of 1834 and then retained Rothschilds as its agent. Willinck and Van Staphorst in Amsterdam and Welles and Co. in Paris were for a time the American fiscal agents in those cities.

[25] U. S. Treasury. Letters to Banks, VI (MS), National Archives, Washington. The Secretary of the Treasury to Robinson, June 14, 1822, and to White, June 17, 1822.

[26] U. S., *Sen. Doc. 5*, 18 Cong., 1 sess., Report of Joseph Nourse, Dec. 3, 1823. Detailed data up to 1829 are to be found in the Receipts and Statements of the Register of the Treasury, VIII, 47.

[27] Pennsylvania, *Senate Journal*, 1819–1820, p. 228. This quotation refers to the situation in 1815 as Raguet saw it.

The specie standard seems to have worked somewhat differently from the way it was described in some of the textbooks. The effects of international specie movements varied, depending on whether they were large or small. Small exports or imports reduced bank reserves, of course, but did not necessarily have any effect on bank loans. There was, of course, a definite response to large specie movements.

Specie was by no means the first thing to move as the trade situation changed. Increased merchandise imports were often preceded by an increase of mercantile credits in foreign parts thus providing for delay in settlement and in some cases for settlement by default. When there was a noticeable increase in demand for bills and a rising rate of exchange the foreign exchange bankers borrowed or remitted stocks and bonds for sale or hypothecation abroad. Then as now the use of both short- and long-time credits postponed and sometimes made specie shipments unnecessary.

If specie exports assumed large proportions they of course affected bank credit. The result of the loss was to restrict the *amount* of bank credit not to raise bank discount rates. At such times, the rate of interest on "street" loans or the "out-of-door" rate of interest advanced, but the bank rate did not.

The main effect of continued loss of specie by the United States was a restriction of commodity imports. Inventory accumulation by merchants was slowed down or thrown into reverse and quantities of imports were reduced. The effect of loss of specie on relative merchandise prices was not clearly apparent. In two cases specie movements may have called a halt to speculative advances in land prices and speculative purchases of real estate. Even large specie movements had little apparent effect upon employment and production in important American exporting industries. Americans were exporters of agricultural products and conditions in agriculture did not ordinarily permit of short-run variations in either the scale or intensity of production. One possible exception to this may have occurred in 1836. Some men apparently left the less remunerative employment on farms for work on the canals. When the boom was over there was some return to the land.

The specie inflow into the United States which accompanied the heavy foreign investment in the middle 1830's led finally to an "adjustment" in the gold losing country. The Bank of England made a *direct* attack on American credit in 1837. (See Chapter XI.) The intention was certainly not to deflate prices and incomes in England with a view to reversing specie movements by making England an attractive market in which to buy. The Bank's course did temporarily reverse the trend in specie movements but this occurred because it stopped Americans from attempting to purchase ever increasing amounts of goods on credit and forced them to begin to pay for goods already bought. The loss of gold in 1839 led to various deflationary measures as we showed in Chapter XI. It is noteworthy that the effects were world wide and that specie finally began to return to England because of the effort to pay previously accumulated debts.

[28] Crawford to Cheves, April 6, 1819, Cheves Papers.

[29] *Niles' Register*, LIII (1837–1838), 9. This is a reprint of a letter by Cheves to the *Charleston Mercury* of August 18, 1837.

[30] Spanish silver dollars in circulation before 1829 were worth 100 cents and 3 mills. The Mexican dollar was equal in value to the Spanish dollar. The Carolus dollar was the Spanish dollar coined prior to 1809. Spanish dollars were more highly esteemed than the American dollar because of the preference for them in Canton. United States, *Sen. Doc. 457*, 25 Cong., 2 sess., p. 2.

[31] "The intention of the Government of the United States, communicated by the last arrival from New York, to alter the relative value of the gold and silver coinage of the Union, has not passed unnoticed by the watchful observers in this money-market. They perceive clearly that it must add materially to the already numerous calls upon this country for bullion, and that whereas, under the pre-existing state of the American coinage, the principal demand for the United States has been in silver, there will now occur, under the altered proportion of 16 instead of 15 for 1, a preference for gold over silver in the importations from Europe. Taking value for value, we can better spare it from our stock of silver, which is a mere article of commerce, than from gold, which is our standard of value, and the working therefore of this reform of the monetary system in America is a matter which concerns us nearly, and deserves to be carefully watched." Quoted

from the (London) *Times* by the (London) *Circular to Bankers*, Aug. 1, 1834.

[32] U. S., *House Exec. Doc. 65*, 24 Cong., 2 sess., p. 53. A report on banking in Rhode Island, June 23, 1836.

[33] A. Gallatin, *op. cit.*, p. 380.

[34] D. R. Dewey, *State Banking before the Civil War* (Washington, 1910).

[35] U. S., *House Exec. Doc. 172*, 26 Cong., 1 sess., p. 492. Included among the assets of the Commercial and Railroad Bank of Vicksburg in 1838 was the item of almost $1,200,000 of railroad expenditures.

[36] New York, *Sen. Doc. 44*, 1838, II. S. A. Caldwell, *A Banking History of Louisiana* (Baton Rouge: Louisiana State University Press, 1935), ch. iv.

[37] Massachusetts, *Legislative Papers*, Senate, 1840, *Doc. 7*, pp. 14–15.

[38] U. S. Treasury, *Circulars*, 1793–1842. *Circular of February 22, 1836.*

[39] U. S., *Annals of Congress*, 14 Cong., 1 sess., pp. 238–239.

[40] Biddle to Hemphill, Feb. 8, 1830, Biddle Papers.

[41] D. R. Dewey, *The Second United States Bank* (Washington, 1910), p. 157.

[42] U. S., *Sen. Doc. 78*, 22 Cong., 1 sess., p. 4. Biddle to Rush, Jan. 10, 1828.

## Notes to Chapter IV: Federal Government Finance

[1] Crawford to Jones, November 17, 1816, Jones Papers (MS), Pennsylvania Historical Society, Philadelphia.

[2] "From the want of punctuality that has been manifested by some of the State Banks in regard to their engagements with the Treasury, and from the risks to which they have been found to be generally subject, it seems as if it would be ultimately necessary to dispense altogether with the agency of these institutions." U. S. Treasury, Letter to Banks, VI, 1819–1832. Rush to Biddle, Jan. 26, 1826.

[3] U. S. Treasury, *Circulars to Collectors and Others*. 1793–1842. *Circular of Aug. 22,1827.*

[4] M. Van Buren, *Autobiography* (Fitzpatrick, ed.), *Annual Report of the American Historical Association*, (1918), II, 645.

[5] A. Gallatin, *Writings*, III, 389.

[6] U. S. Treasury, Receipts and Statements of the Register, VIII, 88.

[7] U. S., *House Reports, 121*, 22 Cong., 2 sess., pp. 166–169.

[8] U. S. Treasury, *Reports on the Finances. Report of the Secretary of the Treasury*, Dec. 6, 1828, pp. 446–447.

[9] U. S. Treasury. "List of Acts Governing Sales, List of Sales of Government Property, and Bonds, Etc." (MS), National Archives, Washington.

## Notes to Chapter V: Prices and Price Movements

[1] Tennessee, *Senate Journal*, 1841. "Message of Governor James K. Polk to the General Assembly," Oct. 7, 1841.

[2] During the growing season, newspapers published frequent accounts of crop conditions, and when the cotton was picked, productions statistics were compiled and published. There was a lively interest in the development of alternative sources of supply, such as the East Indies, Brazil, and Egypt. The United States supplied 75 per cent or more of the cotton going to Great Britain. After 1835, there was a perceptible increase in the cotton coming to the world market from the East Indies. Throughout these years there was a phenomenal development of the British cotton textile industry: in 1816, the consumption was 347,600 bags, in 1840, 1,293,131 bags. Speculative inventories were carefully watched. The year-end stocks in Great Britain were high in 1820, 1825, 1827, and in 1840 and 1841.

[3] Flour exports varied a great deal from year to year. Among other influences on the price of flour was the system of closing and opening the ports of Great Britain — or rather the system of closing and opening the British market. In years when prices were high, the import duty was reduced, in years of abundance crops duties were raised. The years 1817 and 1831 were years of large flour exports to Great Britain. See (London) *Circular to Bankers*, Aug. 7, 1840.

[4] British prices were compiled from the *London New Price Current* and from the *London Mercantile Price Current*. The data are reliable enough to warrant the generalizations given in the text. In both British and American journals top and bottom price quotations were usually given. Because of this, comparisons had to be made between averages of these high and low prices, a circumstance which limits the making of detailed price comparisons.

[5] Some of this price inflexibility may have been more apparent than real. There were probably secret discounts. Editors were occasionally negligent in changing the published quotations as often the facts warranted. The difference, in so far as it was real, was due to differences in the character of the relevant markets: exports were priced with an eye to competitive world markets, imported goods were priced with a view to local markets in which the number of traders was limited.

Import duties on such items as pig lead, bar iron, and hemp were materially changed during this period. Following 1832, there was a gradual reduction of all import duties in excess of 20 per cent ad valorem. The effects of these rates of import duties on the imports indeed were obscured by the other things that did not remain equal. See *Hunt's Merchants' Magazine*, VI (1842), 574–575.

[6] Prices of the Second Bank of the United States as quoted in New York City. Compiled from the *New York Shipping and Commercial List.*

[7] Prices of the following New York banks were used: The Bank of New York, the Manhattan Bank, the Bank of America, and the City Bank. Data compiled from the *New York Shipping and Commercial List.*

[8] Prices of the following railroads were used: The Mohawk Railroad, the Patterson Railroad, the Harlem Railroad, and the Boston and Providence Railroad.

## Notes to Chapter VI: The International Context

[1] R. W. Hidy, *The House of Baring in American Trade and Finance* (Cambridge: Harvard University Press, 1949), chap. 3.

[2] The merchandise import and export figures up to 1821 were estimated by the Treasury at a later date (1835). For 1816 and 1820 figures were derived by "calculations and comparisons with other years" and for 1817, 1818, and 1819, they were derived from "manuscript notes and estimates now made in the Department." Export data were taken mainly from Pitkin's *Statistics*. See C. J. Bullock, J. H. Williams, R. S. Tucker, "The Balance of Trade of the United States," *Review of Economic Statistics*, I (1919), 215–266.

[3] Between 1816 and 1820, the movement of stocks and bonds abroad was about as follows:

| | |
|---|---|
| United States War and other bonds | $13,811,480 |
| United States Bank Stock | 3,300,000 |
| Total | $17,111,480 |
| Redemption of Louisiana Stock (1818) | 3,513,443 |
| Redemption of United States 3 per cent Stock | 1,350,000 |
| Net Security remittance | $12,248,037 |

These calculations, based on *Niles' Register*, XXV, 178–181 and Baring Papers, Miscellaneous Correspondence, 1819–1832, are generally consistent with the data on interest payments and debt redemption to be found in Receipts and Statements of the Register of the Treasury, VIII (1828–1860), 88.

[4] Contemporaries were alert to the deficiencies in the current reporting of data on trade and finance and the erroneous inferences drawn from such data. Hezekiah Niles and contributors to his journal carried on a vigorous analysis of the items affecting the international economic position of the country. Data on merchandise or specie shipments needed to be supplemented by knowledge of the following: remittances of government and other securities, bankruptcies, earnings of carriers, sales of vessels, insolvencies, insurance payments, interest payments, goods lost by shipwreck, inadequacies in the valuation of goods, expenditures by travelers, money brought in by immigrants and other items. See *Niles' Register*, XVI (1819), 150–151, and 386; XXII (1822), 17–18; XXIII (1823), 389–391; and XXIV (1823), 116–120. The following comment on some matters too elusive to be included in my calculations was given by "T." "It is certain that more money is expended by foreigners here than by Americans in Europe; that more money is brought here by emigrants; received here by legacies and intestacies; expended in the purchase and improvement of real estate; in the purchase of public or corporate stocks; more goods brought here on credit which are not paid for to foreigners, than is done in Europe by Americans." *Niles' Register*, XXIII (1823), 391. T. W. Ward estimated American receipts from freights at $10,000,000, a figure notably smaller than the one given in the table. Ward to Barings, Dec. 17, 1840, Baring Papers.

[5] Rostow suggests that a short cycle was perceptible in the British ex-

port data. It should be noted, too, that years of an excess of merchandise exports from Great Britain were prosperous years there and years of excess imports in the United States were years of prosperity here. See W. W. Rostow, *British Economy in the Nineteenth Century*, pp. 36–39 and 46.

[6] Relative increases in Imports into the United States.

| Commodity | *1832* | *1833* | *1834* | *1835* | *1836* | *1837* | *1838* | *1839* | *1840* | *1841* |
|---|---|---|---|---|---|---|---|---|---|---|
| Cotton Tex. | 112 | 83 | 110 | 166 | 193 | 120 | 71 | 161 | 70 | 127 |
| Silks | 124 | 127 | 147 | 223 | 307 | 192 | 131 | 290 | 131 | 207 |
| Carpets | 114 | 65 | 81 | 123 | 197 | 127 | 64 | 125 | 69 | 70 |
| Wines | 147 | 140 | 182 | 232 | 267 | 253 | 143 | 212 | 136 | 129 |
| Spirits | 78 | 88 | 75 | 93 | 109 | 84 | 84 | 127 | 91 | 99 |
| Mfrs. of Iron and Steel | 144 | 112 | 129 | 145 | 213 | 177 | 98 | 176 | 86 | 115 |
| Unmfg. Pig Iron | 377 | 369 | 459 | 492 | 463 | 718 | 541 | 484 | 194 | 379 |
| Bar Iron Rolled | 248 | 355 | 420 | 371 | 754 | 910 | 645 | 1125 | 604 | 768 |
| Steel | 183 | 148 | 157 | 163 | 194 | 228 | 138 | 218 | 149 | 172 |
| Total Mdse. | 123 | 132 | 155 | 183 | 232 | 172 | 139 | 198 | 131 | 156 |

These percentages are the ratios of the values of these kinds of imports to the average for the period from Oct. 1, 1826 to Sept. 30, 1829. The years given above are the fiscal years ending Sept. 30. Source: U. S., *House Reports, 296*, 27 Cong., 3 sess., pp. 567 ff.

[7] R. W. Hidy, *The House of Baring*, pp. 109–116.

[8] By the middle of 1832, about half of Pennsylvania's issues were in foreign hands. *Hazard's Register of Pennsylvania*, XII (1833), 59.

[9] *London Mercantile Price Current.*

[10] Buchanan to Palmerston, Mar. 23, 1837, F. O. (5).

[11] "The extraordinary extension of commercial dealings between England and the United States, in the years 1824 and 1825, was founded principally upon a credit given by the manufacturers of the former country to the importers of British goods resident in the latter. This credit was given directly from them to their American correspondents without any third party stepping in to profit by a commission charge for brokerage or bankerage for conducting the pecuniary transactions between the buyers and the sellers of the manufactured goods. . ."

"At present this system is in a great measure changed. . . Almost every American import-merchant has now a credit agreed upon with some one or more of the leading English merchants connected with the United States. . . This credit is usually taken by bills at four months' date; but in special cases, for houses of eminent reputation and great business in the United States, it is extended to bills at six months' date. This system has grown out of the facilities of obtaining discount at a low rate in London, where bills upon such houses as Baring, &c. have been discounted at three or two-and-a-half per cent." *Circular to Bankers*, Mar. 14, 1834. The *Circular* quotes an estimate of three millions Sterling of these bills outstanding. This the editor believed to be an exaggeration.

[12] R. W. Hidy, *The House of Baring*, p. 195.

[13] *Hunt's Merchants' Magazine*, X (1844), 76–77.

[14] Sir John Clapham, *The Bank of England*, II, 135.

[15] L. H. Jenks, *The Migration of British Capital to 1875*, pp. 73–74.

Dutch capitalists were invited to take these issues but declined. They had had unfortunate experiences with canal bonds. K. D. Bosch, *Nederlandse Beleggingen in de Verenigde Staten*, p. 47.

[16] (London) *Course of Exchange*, 1840.

[17] Sir John Clapham, *op. cit.*, p. 154.

## Notes to Chapter VII: Off to a Bad Start

[1] Fritz Redlich, "William Jones' Resignation from the Presidency of the Second Bank of the United States," *Pennsylvania Magazine of History and Biography*, LXXI (1947), 223–225. *Hazard's Register of Pennsylvania*, VIII (1831), 183.

[2] Dallas to Jones, Apr. 25, 1816, Jones Papers. The subscription books were opened July 1, 1816.

[3] K. L. Brown, "Stephen Girard, Promoter of the Second Bank of the United States," *Journal of Economic History*, II (1942), 125 ff.

[4] Munroe to Jones, Nov. 9, 1816, Jones Papers.

[5] U. S., *House Doc. 92*, 15 Cong., 2 sess., p. 7 and Insert II.

[6] J. P. Boyd, "John Sergeant's Mission to Europe for the Second Bank of the United States: 1816–1817," *The Pennsylvania Magazine of History and Biography*, LVIII (1934), 227–231; Sergeant to Jones, Mar. 14, 1817, Etting Papers; and U. S., *House Doc. 92*, 15 Cong., 2 sess., Insert XXVIII. These imports were about $2,000,000 in 1817 and almost $6,000,000 in 1818. Imports for October 1818 were over $800,000.

[7] Jones to Crawford, Nov. 27, 1816, Jones Papers.

[8] U. S., *House Reports, 460*, 22 Cong., 1 sess., p. 350.

[9] U. S. Treasury. Letters to Banks (MS), National Archives, Washington, VI, Rush to Biddle, May 26, 1826.

[10] Barry to Jones, Dec. 22, 1816, Jones Papers.

[11] Crawford to Jones, Feb. 3, 1817, Jones Papers.

[12] *American State Papers, Finance* (folio), IV, 765. Jones to Crawford Jan. 9, 1817.

[13] *Ibid.*, p. 769.

[14] *Niles' Register*, XII (1817), 96.

[15] Crawford to Jones, July 19, 1817, Jones Papers.

[16] U. S. Treasury. Letters to Banks, VI. The Secretary of the Treasury to Biddle May 30, 1823. This letter reviews the history of the Treasury policy regarding notes of state banks and their handling by the Bank.

[17] *American State Papers, Finance* (folio), IV, 809. Jones to Crawford, July 20, 1817.

[18] *American State Papers, Finance* (folio), IV, 539–540. Crawford to Jones, July 3, 1817.

[19] *American State Papers, Finance* (folio), IV, 830. Jones to Crawford Feb. 24, 1818. In June 1819, the premium on Spanish dollars dropped from 4 per cent to 1½–2 per cent. By Apr. 1820, Spanish dollars were at par.

[20] *Niles' Register*, XVII (1819–1820), 10. Quoted from the *Kentucky Reporter.*

[21] U. S., *House Doc. 92*, 15 Cong., 2 sess., p. 43. Taus suggests that in 1818 specie was sent to New England because prices were low and business was done with specie there. E. R. Taus, *Central Banking Functions of the United States Treasury, 1789–1941* (New York, 1943), p. 29. In 1818, the specie in Massachusetts banks was one-third of what it had been in 1815 and one-third of the amount there in 1821. If specie was sent to New England it does not seem to have been lodged in the banks. See Massachusetts, *Eleventh Annual Report of the Banking Commissioners* (1861), p. 176.

[22] U. S., *House Doc. 92*, 15 Cong., 2 sess., p. 43.

[23] Jones to Buchanan, July 9, 1818, Jones Papers.

[24] U. S., *House Doc. 92*, 15 Cong., 2 sess., p. 156.

[25] *Ibid.*, p. 159.

[26] U. S. Treasury. Letters to Foreign Bankers (MS), National Archives, Washington, Crawford to Baring Brothers and Company, Apr. 29, 1818. See also United States Treasury. *Receipts and Statements of the Register*, VIII, 88.

[27] *Niles' Register*, XV (1818–1819), 361.

[28] *Parliamentary Papers* (1819), III, 181–182. Testimony of A. Baring, Mar. 11, 1819.

[29] Fritz Redlich, "William Jones' Resignation from the Presidency of the Second Bank of the United States," *Pennsylvania Magazine of History and Biography* (1947), p. 227.

[30] Buchanan to Jones, May 24, 1817, Jones Papers. The loan was for Smith, Buchanan and Williams.

[31] E. L. Bogart, "Taxation of the Second Bank of the United States by Ohio," *The American Historical Review*, XVII (1911–1912), 312–331. The account in the text differs slightly from that given by Bogart. He suggests that the branches of the Bank in Ohio angered the state banks by displacing their notes in circulation with the notes of the Bank. The statistical material does not suggest that it was note issue that was the main source of resentment. Had Bank note issues been very large it would have been easy for the state banks to get out of debt to the Bank. The root of the conflict lay in the attempt to collect debts due from state banks: debts due because the branches were government depositories, not (obviously) because the Bank issued too many notes.

At this time other states had similar laws directed against the Bank. These states were Maryland, Tennessee, Georgia, North Carolina, and Kentucky.

[32] Cheves Papers (MS), South Carolina Historical Society, Charleston. Crawford to Cheves, Apr. 11, 1820.

[33] Ultimately the losses to the Bank arising from taking over the United States accounts in state banks in 1817 turned out to be modest. In 1830, Biddle estimated them at about $200,000. Biddle to Hemphill, Jan. 21, 1830, Biddle Papers.

[34] Testifying in 1832, Biddle attributed much of the trouble of the Bank to the fact that the Treasury had given the Bank "distant" and "unavailable" paper. He also said that the increase in loans and circulation was due less to the wants of business than the wants of the government. United States, *House Reports, 460*, 22 Cong., 1 sess., p. 352.

[85] *Ibid.*, p. 351.

[86] Friendly Monitor, *A Brief Review of the Origin, Progress, and Administration of the Bank of the United States* (1819), pp. 8, 19. Jones subsequently became collector for the port of Philadelphia.

[87] Pennsylvania, *Senate Journal*, 1819–1820, pp. 223, 229–230, 231. The report was dated Jan. 29, 1820.

[88] The *Aurora*, Oct. 19, 1818.

[89] Jones thought that Cheves intrigued against him and definitely sought the presidency of the Bank. It was true that large stockholders in South Carolina were anxious to get Jones out of the presidency and replace him with Cheves. But nevertheless the office sought Cheves, not the reverse. As so often happens with men who have a sense of failure, Jones held an unflattering opinion of his successor. He wrote as follows: "In a society of planters and factors, however accomplished, wealthy and respectable, he was not likely to acquire any very comprehensive views of commerce, and of the banking system, upon a scale commensurate with the design and interests of the bank of the United States. In casting off his judicial robes he appears to have left with them his magnanimity. . . His elocution is tireless and alluring, but superficial, and in minutia, he is indefatigable." *Brief Review*, p. 32.

## Notes to Chapter VIII: Safe and Sound

[1] L. P. Haskell, "Langdon Cheves and the United States Bank: A Study from Neglected Sources," *Annual Report of the American Historical Association*, I (1896), 363–371, and S. S. Bennett, "The Cheves Family of South Carolina," *The South Carolina Historcial Review and Genealogical Magazine*, XXXV, 79–95 and 130–152.

[2] Alexander Brown and Sons to Potter, Jan. 25, 1819, Cheves Papers.

[3] At the time Cheves accepted the presidency, Isaac Bronson (apparently on invitation) advised the following banking policy. With a view to control of the state banks as well as other objects, he advised that at least half of the Bank's loans be of unquestioned liquidity. With a portfolio of this sort, the Bank would have no difficulty in reducing its discounts and thereby controlling the other banks and the money market. This should "prevent the Banking interests from overtrading, or issuing an undue amount of their paper, tending to encourage ruinous and unproductive speculations, so apt to result in an unfavorable balance of trade, and in a consequent drain of specie . . . things which will happen unless the Bank can at all times call in, without reloaning, such an amount of its credit, as will be sufficient . . . to remedy the evil . . . This will be effected when prices of domestic produce, & foreign goods, shall be so reduced that the exporter gains, & the importer loses by the trade, because a due proportion of the returns for our exports will then be in money, instead of goods; and when so introduced, the money can be kept in the country." Bronson to Williams, Mar. 12, 1819, Cheves Papers.

[4] Cheves claimed that he did not know about the losses at the Balti-

more branch at the time he took over the presidency. This was strange because the Spencer Report came out on Jan. 16, 1819. This report made it abundantly clear that something was amiss at the Baltimore branch.

[5] *Niles' Register*, XXIII (1822–1823), 91.

[6] Crawford to Cheves, Apr. 6, 1819, Cheves Papers.

[7] *Niles' Register*, XXIII (1822–1823), 90. The Bank began to build its office in Philadelphia in 1819. On the brink of having to suspend specie payments, the directors approved the construction of a building somewhat resembling the Parthenon and equipped with tiled floors and other expensive trappings. W. S. Rusk, "Benjamin H. Latrobe and the Classical Influence of his Work," *Maryland Historical Magazine*, XXXI (1936), 144.

[8] U. S., *American State Papers, Finance* (folio), IV, 607. Crawford to Smith, Feb. 12, 1819.

[9] *Niles' Register*, XXIII (1822–1823), 90.

[10] Crawford to Cheves, Apr. 6, 1819, Cheves Papers.

[11] Memorandum of Mar. 1819 (in Cheves's handwriting), Cheves Papers.

[12] Cheves Papers. An undated memorandum, probably written about the end of 1819. Professor David McCord Wright, after a thorough study of the life of Cheves, is of the opinion that Cheves and Biddle clashed over the issues raised in this memorial. Cheves wanted to correct "*The perpetual* Balance of Trade or exchange in favor of one part of the Country against the other and consequently the reiterated demands on the Banks for Specie to go Eastward." Equally important, he wanted to restrict the issue of notes at the branches in such a way that it would be administratively feasible as well as generally acceptable in the South and West. Cheves' experience made him aware that the Bank should be managed with some reference to the climate of political opinion.

[13] *Niles' Register*, XXIII (1822–1823), 94.

[14] Memorandum of Mar. 1819, Cheves Papers.

[15] E. R. Taus, points out in *Central Banking Functions of the United States Treasury* (p. 29) that the Treasury made deposits in certain banks in the neighborhood of Washington at this time in order to prevent bank failures and general panic. While this was true, it was also true that the deposits were small. They aided some banks near Washington at the expense of some New England banks. The intentions of the Treasury may have been of the best but the actual amount of aid was small.

[16] Crawford to Cheves, Mar. 27, 1819, Cheves Papers.

[17] *Ibid.*

[18] Crawford to Cheves, Apr. 9, 1819, Cheves Papers.

[19] Crawford to Cheves, Apr. 6, 1819, Cheves Papers. See also *American State Papers, Finance* (folio) IV, 875, Resolution of the directors, Apr. 12, 1819.

[20] U. S., *House Reports, 460*, 22 Cong., 1 sess., p. 338.

[21] *Niles' Register*, XXIII (1822–1823), 92.

[22] The premium on Spanish dollars dropped from 4 to 1¾ per cent in June. Not until Apr. 1820 were Spanish dollars at par.

[23] *Niles' Register*, XVII (1819–1820), 115.

[24] R. Hildreth, *Banks, Banking and Paper Currencies* (Boston, 1840), p. 77.

[25] Alexander Brown and Sons, Letter Book, 1819–1820 (MS), Alexander Brown and Sons, Baltimore, Alexander Brown and Sons to Cumming, May 31, 1819.

[26] Robertson to Castlereagh, July 1, 1819, F. O. (5). Unemployment in urban manufactures was severe in the worst period of this depression. In Philadelphia, such employment was only 22 per cent of what it had been in 1816. Employment in cotton spinning and weaving declined from 2325 to 149. In Pittsburgh, employment in manufactures dropped to 34 per cent of its 1815 level. In steam engine manufacture, even then the most important type of manufacturing enterprise in Pittsburgh, employment fell from 290 to 24. *Hazard's Register of Pennsylvania*, IV, 168–169.

[27] *Niles' Register*, XIX (1820–1821), 40.

[28] These debts were finally written off in 1830. The total loss at Baltimore amounted to $1,671,221.87 and for the Bank as a whole to about $3,700,000.

[29] Salomon to Cheves, Jan. 28, 1821, Cheves Papers.

[30] Laws of Georgia, 1821, pp. 78–80. Act of Dec. 24, 1821. See also Report of the Joint Committee on Banks, Laws of Georgia, 1821, pp. 130–131, Report of the Joint Committee on Banks, Laws of Georgia, 1822, pp. 151–152, and Laws of Georgia, 1824, pp. 33–34, Act of December 20, 1824.

[31] *American State Papers, Finance* (folio), IV, 908.

[32] Cheves Papers. An undated memorandum probably written in the latter part of 1819.

[33] Robertson to Planata, May 7, 1822, F. O. (5).

[34] *Niles' Register*, XXII (1822), 161.

[35] Degrand's *Boston Weekly Reports*, 1822, *passim*.

[36] Crawford to Cheves, Apr. 11 and 13, 1820, Cheves Papers.

[37] Lawrence to Cheves, Sept. 9, 1820, Cheves Papers.

[38] R. C. H. Catterall, *The Second Bank of the United States*, chap. iv. p. 91.

[39] D. R. Dewey says that Cheves's policy was one of contraction of the Bank's note issues while Biddle collected debts from other banks rigorously and returned bank notes promptly to the bank of issue for redemption. *The Second United States Bank*, p. 227. This may have been the policy but the decline in notes outstanding while Cheves was president was also the result of the generally reduced volume of business in this period.

[40] U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. I, p. 136.

[41] In Jan. 1822, the rate was 2 per cent, in July, 2¼ per cent, and on Jan. 1823, 2½ per cent.

[42] *Marwade's Commercial Report and London and Liverpool Prices Current*, Oct. 30, 1821.

[43] *Memoirs of John Quincy Adams*, V, 39.

[44] Crawford to Cheves, Dec. 12, 1821, Cheves Papers. See also Peyton to Cheves, Jan. 2, 1822.

[45] *Niles' Register*, LIII (1837–1838), 8–9. Cheves's letter to the *Charleston Mercury*, Aug. 18, 1837.

[46] Within the Cheves family the impression has prevailed that Biddle intrigued against Cheves in order to secure the presidency of the Bank for

himself. Documentary proof of intrigue is hard to secure. Moreover, the difference between intrigue and independence of action is sometimes hard to discern. Such records as have come to the attention of the writer indicate that Cheves and Biddle indeed came into conflict. They do not substantiate the charge of dishonorable intrigue.

From the very beginning, Biddle was actively interested in the affairs of the Bank. In Feb. 1817 President Jones thought Biddle of sufficient importance to inform him about the negotiations with the state banks at that time. About a year later, Biddle interested himself in the inquiries made by the House Committee of Ways and Means on the Bank's collateral loans. When the Spencer Committee investigated the Bank, Biddle supplied the Committee with data and in turn received an early copy of the Committee's report. In Biddle's opinion this report clearly indicated the "necessity of a radical reform."

Biddle's acceptance of the nomination as a government director in 1819 occurred after he had declined to be a stockholder elected director. This appointment came "without my knowledge," Biddle once wrote. Jones, the Bank's first president, had been a government director. Biddle may have thought that only with such a directorship did he have a chance to become president. There is no evidence that he reasoned in such a fashion.

At the time of his nomination, the important issue was the selection of a successor to Jones as president. Biddle's attitude toward Cheves, the leading candidate, was one of detachment. He held that the new president should have the unqualified support of the administration. One of Biddle's informants had been of the opinion that Cheves had "felt very sour with the executive" at the time he left Congress. Biddle raised the question whether the new president should not be a nonpolitical person. These queries were of the kind that any director might reasonably have raised concerning a candidate. They are also open to the interpretation that he was trying to insinuate himself into the list of candidates. On this last point, there is no direct evidence.

In Jan. 1821, a policy question arose on which Biddle took emphatic issue with the majority of the board of directors and quite probably with the Bank's president. The board reversed its policy of the two preceding years of trying to reduce its loans on Bank stock. Biddle opposed this on the grounds that such loans constituted one-fourth of the Bank's loans and that experience had proved them to be "unmanageable." He thought they were unnecessary to provide bank credit for commercial purposes and that such loans would invite speculation. Unable to make the directors accept his point of view, Biddle felt it his "duty" to communicate his criticisms of this policy to Secretary Crawford. To Cheves, this could have looked like intrigue. To Biddle, this communication with the Secretary of the Treasury seemed to be the morally right course. The Bank's experience with such loans had not been a happy one. Such loans had been severely criticized. Biddle was a government director and in communicating with the Secretary was informing the representative of a fifth interest in the Bank.

When his appointment as director terminated at the close of 1821, Biddle seems to have been interested in securing an appointment in the foreign service. Nothing came of this. In the meantime, early in 1822, Cheves decided to resign. As noted elsewhere, he was not particularly happy in his

post and felt ill at ease in Philadelphia. In various metropolitan centers efforts were made to secure another man for president. One of Cheves's correspondents mentions the "great efforts by certain gentlemen in Philadelphia" to effect a change in the presidency. This reference was probably to Price, a friend of Biddle's. Was this a Machiavellian attempt on Biddle's part to oust Cheves? The data at hand do not prove or disprove this interpretation.

Although Cheves decided to resign early in 1822, Biddle was apparently not approached about the presidency until October. He soon became a leading candidate. The most serious objection to Biddle arose from the known fact that a serious disagreement had arisen between Cheves and him. Fear was expressed that the southern interests, who were very friendly to Cheves, might take an obstructionist attitude toward Biddle's administration. This fear proved to be unjustified.

When Biddle became the favorite candidate of both business and the government, Cheves coöperated admirably with him to effect a smooth transition in the affairs of the Bank. Cheves made it possible for Biddle to attend the 1822 meeting of the stockholders as representative of important Connecticut interests. While the Senate was deliberating over Biddle's nomination to the Board of Directors, he mentions being "busily engaged in making a review of the affairs of the Bank with Cheves." More than fifteen years later, Cheves wrote: "Nor have I any wish to abridge the eulogy he [Cooper] has pronounced on my successor. I have always born testimony to Mr. Biddle's talents and general fitness for his situation."

Conflict between two such determined men as Cheves and Biddle was almost inevitable. Biddle's communication with the Secretary of the Treasury as well as his undoubted influence in Philadelphia and on the Philadelphia men on the board of directors could quite reasonably have looked like "intrigue" to Cheves. To Biddle, his course was his duty. If there was intrigue, it does not seem to have been of the dishonorable type. Biddle Papers. Jones to Biddle, Feb. 1817; Biddle to Forsyth, Feb. 6, 1818; Spencer to Biddle, Dec. 16, 1818; Biddle to Spencer, Jan. 20, 1819; Spencer to Biddle, Jan. 23, 1819; Biddle to Spencer, Jan. 27, 1819; Biddle to Roberts, Jan. 31, 1819; Roberts to Biddle, Feb. 2, 1819. Memorandum by Biddle, Jan. 26, 1821, Biddle to Roberts, Jan. 29, 1821; Biddle to Crawford, Jan. 29, 1821; Forrest to Biddle, Mar. 29, 1822; Colt to Biddle, Oct. 26, 1821; Colt to Biddle, Nov. 2, 1822. Memorandum of Oliver, Nov. 21, 1822; Biddle to Colt, Dec. 20, 1822; Biddle to Parsons, Dec. 24, 1822; and Biddle to Colt, Dec. 25, 1822.

## Notes to Chapter IX: The Golden Age

[1] Biddle Family Papers, 1820–1840 (MS), Library of Congress, Washington. As late as Oct. 26, 1822, R. L. Colt of New York wrote to Biddle inquiring if there were not a promising candidate for the presidency of the Bank in Philadelphia.

[2] Biddle to Lenox, Feb. 3, 1823, also Biddle to White, Feb. 3, 1823, Biddle Papers.

[3] Biddle to Parsons, June 22, 1825, Biddle Papers.

[4] Biddle to White, Feb. 3, 1823, Biddle Papers.

[5] Biddle to Cummings, Feb. 15, 1825, Dreer Papers (MS), Pennsylvania Historical Society, Philadelphia.

[6] Biddle to Crawford, Nov. 20, 1823, Biddle Papers.

[7] U. S. Treasury. Letters to Banks (MS), National Archives, Washington, VI, Crawford to Biddle, May 30, 1823.

[8] Biddle to Lloyd, Dec. 21, 1823, Biddle Papers. The statistics in the published reports of the Treasury record separately the gold and silver importations from South America and Mexico for the first time in 1822–1823.

[9] Biddle to Hunter, Cashier of the Office at Savannah, Feb. 8, 1825, Dreer Papers.

[10] Gowan & Marx to Joseph Marx & Son, Richmond, Nov. 29, 1823, Baring Papers. Also see the *New Orleans Gazette and Commercial Advertiser*, Apr. 12, 1824.

[11] Memorandum by Alexander Baring dated Sept. 15. 1824, Baring Papers.

[12] Leroy Bayard & Co., to Barings, Dec. 15, 1824, Baring Papers.

[13] The specie exported to the Far East amounted to around five millions in the fiscal year 1824–1825: in the following years such exports were normally less than a million. Biddle attributed this change partly to a falling off in business and partly to the sale of the Bank's long Sterling bills for use in this trade.

[14] Biddle to Lawrence, May 9, 1825, Biddle Papers.

[15] Biddle to Robinson, Apr. 8, 1825, Biddle Papers.

[16] Biddle to Robinson, Apr. 11, 1825, Biddle Papers.

[17] Biddle to Lawrence, May 12, 1825, Biddle Papers.

[18] Subsequently, Biddle said that there was a demand for specie for exportation to Canada, U. S., *House Reports, 460*, 22 Cong., 1 sess., p. 435.

[19] Biddle to Lenox, Dec. 7, 1825, Biddle Papers.

[20] Biddle to Fort, Nov. 26, 1825, Dreer Papers. See also the *Mobile Daily Commercial Register and Patriot*, Apr. 10, 1838.

[21] Biddle to Dickins, Nov. 30, 1828, Biddle Papers.

[22] D. R. Dewey lays stress on the Bank's adherence to the policy of commercial banking in explaining its ability to loan freely in the 1825 crisis. *The Second United States Bank* (Washington, 1910), p. 243.

[23] Robertson to Canning, Jan. 30, 1826, F. O. (5).

[24] Biddle to Robinson, July 26, 1825 and Biddle to Greene, July 15, 1825, Biddle Papers.

[25] (London) *Circular to Bankers*, Aug. 9, 1833.

[26] Biddle to Barings, Mar. 19, 1828, Baring Papers.

[27] Biddle to White, Mar. 3, 1828, Biddle Papers.

[28] C. W. Wright, *Economic History of the United States* (New York, 1949), p. 369.

[29] A minor source of the demand for specie from the Bank arose from the suppression of small bank notes in Pennsylvania about this time.

[30] The Bank of Pennsylvania to Barings, Apr. 12, 1828, Baring Papers.

[81] *New Orleans Price Current and Commercial Intelligencer*, Sept. 13, 1828.

[82] Laverne to Barings, Aug. 19, 1828 and Memorandum of Sept. 1828 by A. Baring, Baring Papers.

[83] Biddle to Degrand, June 22, 1826, Biddle Papers.

[84] *Niles' Register*, XXXII (1827), p. 125.

[85] Biddle to Barings, Mar. 19, 1828, Baring Papers.

[86] U. S. Treasury, Letters to Banks, Rush to Biddle, Jan. 26, 1826.

[87] U. S. Treasury, *Circulars to Collectors*, 1793–1842. *Circular* of Aug. 22, 1827.

## Notes to Chapter X: A Losing Fight with Andrew Jackson

[1] U. S. Treasury, Letters to Banks, VI, Ingham to Biddle, July 24, 1829 and Nov. 6, 1830.

[2] There were, of course, anti-Bank developments prior to this. Mr. Barbour of Virginia had attempted to persuade the House of Representatives to authorize the sale of the government-owned Bank stock (Dec. 13, 1827). In 1828 Senator Benton denounced the Bank as an institution of specie privilege because it held the deposits of the Treasury.

[3] Biddle to Lenox, July 6, 1829, Biddle Papers.

[4] Petition dated June 27, 1829, Dreer Papers. Mason's account of this episode is given in the *Memoir and Correspondence of Jeremiah Mason* (G. S. Hilliard, ed., Cambridge, 1873).

[5] Biddle to Dickins, Sept. 16, 1829, Biddle Papers.

[6] Biddle to Mason, Sept. 16, 1829, Biddle Papers.

[7] Biddle to Dickins, Sept. 30, 1829, Biddle Papers.

[8] Biddle to Lewis, Oct. 21, 1829, Biddle Papers.

[9] U. S., *House Reports, 358*, 21 Cong., 1 sess., pp. 1–42.

[10] M. Van Buren, *Autobiography* (Washington, 1920), pp. 640 and 654.

[11] U. S. Treasury. Letters to Banks, VI, Ingham to Biddle, Mar. 19, 1829.

[12] *New York Spectator*, Sept. 3, 1830, quoted from the *Centinel*.

[13] *New York Spectator*, Jan. 28, 1831.

[14] *New York Spectator*, May 4, 1832, quoted from the *Albany Argus*.

[15] *Niles' Register*, XL (1831), 281.

[16] *New York Spectator*, Sept. 23, 1831.

[17] Between 1830 and 1831, Baring Brothers and Company increased credits to American merchants. R. W. Hidy, *The House of Baring*, p. 105.

[18] (London) *Circular to Bankers*, Apr. 22, 1831.

[19] Astor Letter Book (MS), Baker Library, Boston. Astor to Talbot, Jan. 6, 1832.

[20] U. S., *House Reports, 460*, 22 Cong., 1 sess., pp. 195–197. All references to the Bank's exports of specie between June 1821 and Feb. 1832 are from this source.

[21] See Chapter XII, pp. 252–253.

[22] "The Bank, like every other seller of bills, calculates all the chances of rise and fall, and shapes its prices accordingly. Thus it found itself, in

the month of February with a large stock on hand, with the market full of private bills selling much below its own rate, so that it sold comparatively little. At this time appearances warranted the expectation of a large export of bread stuff to Europe, besides the chances of war there — and the Southern crops were coming into market soon in large masses. With a great amount of exchange already, with the prospect of a large addition from the South, and strong indications of a general decline in price, we thought it best to bring our rate nearer to that of the outdoor market, and therefore reduced our rate one half per cent, fixing it at 6½ on the 20th of Feby. At this rate we went on for nearly three weeks. By that time we had sold nearly, if not quite, a million of dollars, the prospect of a large exportation of bread stuffs had diminished, the chances of war in Europe lessened, and the Southern crop came slowly into market, while the rate of private bills advanced. We then went back to our former rate of 7 per cent. At that rate we continued selling — till finding our stock in hand diminishing and the chances of replenishing at low rates more uncertain, we raised another half per cent. We did so because the state of the market justified it. We did so for another reason, which was, that if we were to overrun our account in Europe and incur a debt there at five per cent, we should have a little more margin to replace it with. All this time too it should be borne in mind, that our sales have been and still are *actually below the specie rate*, that is, it is cheaper to take our bills than to ship silver.

"As to the idea of depressing prices here in order to buy cheaper in the South, that is a policy which the Bank never has pursued and never will pursue — and in the present instance it could not occasion the fall, for it was too late — in February — to produce such an effect." — Biddle to Robinson, Mar. 22, 1831, Biddle Papers.

[23] Biddle to Bucknor, Feb. 10, 1832, Biddle Papers.

[24] Biddle to Gales, Aug. 20, 1830, Biddle Papers.

[25] Clay to Biddle, Sept. 11, 1830, Biddle Papers.

[26] Biddle to Degrand, Dec. 22, 1830, Biddle Papers.

[27] Biddle to Ingersoll, Feb. 6, 1832, Biddle Papers.

[28] The bill passed by a comfortable but not large majority in both houses of Congress. New England, outside of Maine and New Hampshire, generally supported the bill. New York was predominantly against recharter as one might expect from the close political ties between Washington and Albany at that time. However, New York was not unanimous and in the House of Representatives there was some New York support for the bill. Pennsylvania strongly, but not unanimously, supported the measure. Louisiana strongly approved the charter. Perhaps the most surprising thing was the change in political sentiment that had occurred in Ohio which generally supported recharter. U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. I, p. 1073 and VIII, Pt. III, p. 3852.

[29] Biddle to Clay, Aug. 1, 1832, Biddle Papers.

[30] "The situation of the country at this period [Feb. 1832] is very delicate. We have on the one hand an excessive importation, on the other hand a crop short in amount, diminished in value and coming in, at a time unusually late. This of itself produces great difficulty in meeting abroad the engagements of the country for its importations. But to this is now added

the intention of the Gov't to make heavy payments on the public debt, of which a large proportion is held abroad, thus increasing the demand for foreign payments on diminished resources of the country. The preparation for these of course obliges the Bank to be extremely reserved in its business, and not by any undue extension of its loans to increase the ultimate pressure which it seeks to relieve." Biddle to Swartwout, Feb. 27, 1832, Biddle Papers.

[31] U. S., *Sen. Doc. 4*, 22 Cong., 2 sess., p. 26.

[32] Appleton Papers (MS), Massachusetts Historical Society, Boston, T. W. Ward to Appleton, Feb. 3, 1832. Ward significantly added that in the new charter the Bank should "be restricted as to the time it sh[d] hold its securities taken for bad debts. I w[d] have all such securities turned into cash within two years from the time they were taken by the Bank — & let others make the profit or loss. So that there w[d] be no temptation to speculate . . ."

[33] Biddle to Perkins, July 27, 1832, Biddle Papers.

[34] Biddle to Cadwalader, July 1, 1832, Biddle Papers.

[35] U. S., Report of the Secretary of the Treasury, Dec. 10, 1832. *Sen. Doc. 4*, 22 Cong., 2 sess., p. 27. Catterall says (pp. 152 and 153 in *The Second Bank*): "All this embarrassment to the bank and all this distress to the community had arisen from Biddle's plan of operations in the western and southwestern country at a moment when the demands for capital were excessive . . . the cause [of the difficulties in 1831 and 1832] lay in the nature of western loans and in the character of the western directorates; it lay in the purchase of bills at six months' time; in that constant renewing of discounts which was customary in the West and Southwest; in the loan of money on a crop yet unmarketed, ungathered, unsown even." There was doubtless some lack of liquidity in the loans at the western branches but Catterall exaggerates its importance. Any dominant bank, such as the Second Bank, which attempts at short notice to collect a large portion of the loans which it has made will find itself, its customers, and other banks in trouble if there is no alternative source of bank credit. The fault seems to the writer to have been with the government which, at this juncture, made demands on the Bank incompatible with its role of a creator of credit. Elasticity and liquidity were achieved in the end by resort to that ultimate source of means of payment, the London money market.

[36] Thomas Biddle, broker for the Bank, was a second cousin of the Bank's president. He dealt in both securities and bills of exchange. In fact, because he had the former to sell in London, he had bills on London to sell in the United States. Many of the Pennsylvania issues were sold through this firm. A congressional investigating committee not only discovered that he was a large borrower at the Bank but that he had received a large loan at 5 per cent. Although this loan was made in 1830 when the Bank had a plethora of money and had made similar reductions in its rate of interest to many borrowers, the publication of these facts gave rise to widespread charges of nepotism. The fact that Thomas Biddle was appointed broker for the Bank in Philadelphia after Nicholas Biddle became president cast suspicion on the Bank's president. Thomas Biddle's name had been suggested to Cheves but he had negatived the appointment. Instead Messrs. McEuen, Hale, and Davidson performed this function. According to T. Wil-

son, the appointment of T. Biddle to succeed McEuen, Hale, and Davidson was done without either a suggestion from or knowledge by Nicholas Biddle. U. S., *House Reports, 460*, 22 Cong., 1 sess., pp. 12, 112–113, 125, and 154–155.

[37] U. S., *House Reports, 121*, 22 Cong., 2 sess., pp. 89–90.

[38] A similar arrangement was made for Dutch holders, who, on Oct. 16, had agreed to postpone the redemption of bonds amounting to $672,398.60. U. S., *House Reports, 121*, 22 Cong., 2 sess., p. 107.

[39] Biddle alleged that the Treasury would not have had a dollar in its balance on Jan. 1, 1833 but for the fortuitous receipt of the Danish indemnity.

[40] (London) *Circular to Bankers*, Mar. 9, 23, and Oct. 5, 1832.

[41] R. W. Hidy, "The Union Bank of Louisiana Loan, 1832: A Case Study in Marketing," *Journal of Political Economy*, XLVII (1939), 232 ff.

[42] U. S. Treasury, Letters to Banks, VI, McLane to Biddle, Oct. 31, 1832.

[43] U. S. Treasury, Letters to Banks, VII, The Secretary to Biddle, May 16, 1833.

[44] *Ibid.* The Secretary to Biddle, June 21, 1833.

[45] *Ibid.* The Secretary to Kendall, July 23, 1833.

[46] Duane wrote to the *Mayesville Eagle* as follows: "I have always been, and am, opposed to the United States Bank, and to all such aristocratic monopolies; but I consider the removal of the deposits unnecessary, unwise, vindictive, arbitrary, and unjust." *New York Spectator*, Nov. 18, 1833.

[47] U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., pp. 94–95.

[48] U. S. Treasury, Letters to Banks, I, Taney to Schott, Nov. 5, 1833; Taney to Newbold, Nov. 14, 1833; and Taney to White, Nov. 20, 1833.

[49] Taney wrote to George Newbold that the Bank was trying to secure all the specie it could and "through the papers under its influence to produce a panic and thereby occasion a run on the state banks." U. S. Treasury, Letters to Banks, I, Taney to Newbold, Nov. 29, 1833.

[50] Biddle to Strong, Jan. 2, 1834, Biddle Papers.

[51] U. S. Treasury, Letters to Banks, I, Circular dated Dec. 13, 1833.

[52] During the critical period from Oct. 1833 to Mar. 1834, the Bank considerably reduced its credits to other banks as well as the number of state banks' notes that they held. The figures below suggest the degree of severity of its policy.

| *Date* | *Net balances with state banks* (millions) | *Notes of state banks* (millions) |
|---|---|---|
| Oct. 1833 | $2.3 | $2.4 |
| Jan. 1834 | 1.5 | 2.0 |
| Apr. 1834 | .6 | 1.6 |

[53] Biddle to Hamilton, Feb. 1, 1834, Biddle Papers.

[54] Biddle to Watmough, Feb. 8, 1834, Biddle Papers.

[55] Appleton Papers. Petition dated June 21, 1834.

[56] The Union Committee of New York bankers pointed out that conclusions from the statistics depended upon the period of time and the specific

dates used. If one used a year's time (and the committee was inclined to use such a period in order to eliminate the effects of seasonal variation), the Bank's contraction of credit did not approach the severity the Treasury's analysis suggested. On the other hand, a comparison of loan reductions and Treasury withdrawals between Aug. 1, 1833 and Feb. 1, 1834 was definitely unfavorable to the Bank. R. C. H. Catterall (in the *Second Bank*, p. 321) suggests that the Bank's contemplated reduction of discounts was "preposterously large." Catterall's excellent book conveys an erroneous impression at this point. It was not what was planned but was done that was important. The fact was that the reductions were moderate in view of the uncertainties of the situation.

[57] *New York Spectator*, Mar. 24, 1834.

[58] This point was also stressed by Henry Burgess in the (London) *Circular to Bankers*, Feb. 14, 1834.

[59] *New York Spectator*, Dec. 4, 1833.

[60] Biddle to Verplanck, Nov. 19, 1833, Biddle Papers.

[61] Gilpin later became Van Buren's Attorney General for a short time.

[62] Gilpin Papers (MS). Pennsylvania Historical Society, Philadelphia, vol. 24.

[63] Biddle to Jaudon, Jan. 25, 1834, Biddle Papers.

[64] U. S., *Register of Debates*, 23 Cong., 1 sess. (1833–1834), X, Pt. I, p. 984.

[65] *Ibid.*, p. 1079.

[66] Biddle to Barney, Mar. 4, 1826, Biddle Papers.

[67] Biddle to Tyler, Oct. 18, 1834. Quoted as having been said on Feb.11, 1834. Biddle Papers.

[68] Biddle to Jaudon, Jan. 17, 1834, Biddle Papers.

[69] U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., p. 67.

[70] U. S. Treasury, Letters to Banks, VII, Woodbury to Biddle, Dec. 24, 1834.

[71] *New York Spectator*, Sept. 2, 1833.

[72] *New York Spectator*, June 24, 1833.

[73] *New York Spectator*, Mar. 6, 1833. Also *Niles' Register*, XLIV, May 4, 1833, p. 150.

[74] *New York Spectator*, Sept. 30, 1833.

[75] *Niles' Register*, XLIV, Aug. 3, 1833, 370.

[76] *Niles' Register*, XLVI, Mar. 8, 1834, 17.

[77] *New York Spectator*, Jan. 30, 1834.

[78] *New York Spectator*, Aug. 19, 1833.

[79] [London] *Circular to Bankers*, Nov. 15, 1833.

[80] [London] *Circular to Bankers*, Feb. 14, 1834.

[81] L. H. Jenks, *The Migration of British Capital to 1875*, p. 88.

[82] *Niles' Register*, XLVII (1834–1835), 121–122. *New York Journal of Commerce*, Oct. 1, 1834.

[83] *New York Journal of Commerce*, Nov. 19, 1834.

[84] Biddle to Blatchford, Aug. 19, 1835, Biddle Papers.

[85] Biddle to Jaudon, Aug. 7, 1835, Biddle Papers.

[86] "Loans at Interest" at the time of conversion of the Bank into a Pennsylvania bank.

| Date Due | Securities Received for Offices Sold (Mostly bank obligations) | Loans on Various Stocks and Other Securities | Amount Payable |
|---|---|---|---|
| 1836 | $1,540,881.08 | $2,974,965.09 | $4,515,846.17 |
| 1837 | 1,530,807.12 | 368,150.00 | 1,898,957.12 |
| 1838 | 1,751,007.13 | 3,093,590.00 | 4,844,597.13 |
| 1839 | 1,567,957.12 | ..................... | 1,567,957.12 |
| 1840 | 707,709.83 | 283,600.00 | 993.309.83 |
| 1841 | 62,500.00 | ..................... | 62,500.00 |
| 1842 | 62,500.00 | ..................... | 62,500.00 |
| 1850 | ..................... | 8,000.00 | 8,000.00 |
| 1855 | 1,000,000.00 | 10,000.00 | 1,010,000.00 |
| 1856 | ..................... | 20,000.00 | 20,000.00 |
| | $8,225,362.28 | $6,758,305.09 | $14,983,667.37 |

Source: U. S., *House Exec. Doc. 118*, 24 Cong., 2 sess., p. 108.

[87] *London New Price Current*, Supplement, 1834.
[88] (London) *Circular to Bankers*, May 23, 1834.
[89] *Niles' Register*, XLVIII (1834–1835), 42.
[90] *New York Spectator*, May 2, 1835.
[91] Ward to Barings, Nov. 16, 1835, Baring Papers.
[92] Proceedings of a Meeting of the Stockholders of the Bank of the United States, Feb. 19, 1836, pp. 31–32 and 34.

## Notes to Chapter XI: A Bad End

[1] *Pennsylvania Senate Journal*, 1835, I, 221.
[2] *Georgia House Journal* (1837), pp. 377–394.
[3] Laws of Pennsylvania, 1835–1836, pp. 36–47. See also U. S., *House Exec. Doc. 118*, 24 Cong., 2 sess., III, 64–69. This blending of the old and new banks was displeasing to the government. See the report made by John White and H. D. Gilpin, Jan. 24, 1837. U. S. Treasury, Letters from Banks, 1833–1837.
[4] Biddle to McIlvane, Jan. 7, 1836, Biddle Papers.
[5] Biddle to Allen, Nov. 11, 1836, Biddle Papers.
[6] Laws of Pennsylvania, 1835–1836, p. 39.
[7] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., p. 423.
[8] Biddle to Barings, Feb. 23, 1836, Biddle Papers.
[9] The dominance of Philadelphia over the Bank was not a complete departure from the earlier situation. Ten years earlier, E. I. du Pont, a government-appointed director, wrote, "Heretofore the Bank has rather been a Philadelphia Bank with branches, than the Bank of the Nation." du Pont to Biddle, January 28, 1826. du Pont Papers.
[10] Biddle to Hunter, Apr. 25, 1836 and Biddle to Frazier, May 3, 1837, Biddle Papers.
[11] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., p. 469 and pp. 463–465.

[12] U. S., *House Exec. Doc. 118*, 24 Cong., 2 sess., pp. 101–108.

[13] Robertson to Palmerston, July 15, 1836, F. O. (5).

[14] *New York Spectator*, May 9, 1836, and *Boston Advertiser*, Dec. 30, 1836.

[15] *Niles' Register*, IL (1835–1836), 313. Quoted from *Bicknell's* (Philadelphia) *Reporter*.

[16] U. S., *House Exec. Doc. 77*, 30 Cong., 1 sess., pp. 594–640.

[17] U. S. Treasury. *Circulars*, 1793–1842. *Circulars* of Sept. 30, 1835, Feb. 22, 1836, Apr. 14, 1836, and July 11, 1836. Act of Apr. 14, 1836. The minima were progressively raised from $5 to $20. The specie circular granted "indulgence" to small purchasers until Dec. 15, 1836.

[18] Gallatin, *op. cit.* III, 391.

[19] *New York Spectator*, Dec. 15, 1836. Open letter of Biddle to J. Q. Adams, Nov. 11, 1836. This account of the pattern of specie redistribution in 1836 is corroborated by the Report of the Secretary of the Treasury, Jan. 4, 1837. New York as well as the United States Bank lost specie in 1836. U. S. *House Exec. Doc. 65*, 24 Cong., 2 sess., p. 205. Trotter pointed out that the financial situation was made worse because of the season of the year at which these transfers were undertaken, because of the requirement that the government deposit could not exceed three-fourths of the depository bank's capital, and because the balances apportioned to the various states bore no close relationship to the commercial structure of the country. A. Trotter, *Observations*, p. 39.

[20] Jaudon to Bates, Jan. 7, 1836; Jaudon to Baring Brothers and Company, Oct. 15, 1836, Baring Papers.

[21] (London) *Circular to Bankers*, Oct. 14, 1836.

[22] Baring Brothers and Company to Ward, Feb. 6, 1837, Baring Papers.

[23] R. W. Hidy, *The House of Baring*, p. 170.

[24] Bates to Jaudon, Mar. 1, 1837, Baring Papers. See also the (London) *Circular to Bankers*, June 16, 1837.

[25] Specie shipments between the United States and other European countries and elsewhere more than offset the loss to England.

[26] The totals given in the consolidated statement for the Bank are misleading at this point. Detailed analysis of the accounts for the various offices and agencies suggests that the accounts were juggled. At New York, loans on personal security were reduced while at New Orleans there seems to have been a compensatory change.

[27] Biddle to Barings, Mar. 22, 1836; to Hope and Company, Mar. 22, 1836; to Messrs. Hottinguer and Company, Mar. 22, 1836, Biddle Papers.

[28] *New York Spectator*, July 28, 1836.

[29] Biddle to Barings, Aug. 31, 1836, Baring Papers.

[30] Jaudon to Bates, Jan. 7, 1836, Baring Papers.

[31] Biddle to Eyre, Mar. 29, 1837, Biddle Papers. Merchants and bankers alike appealed to the Bank for aid at this time. Financial conservatives like Brown Brothers, Prime, Ward and King, and G. Griswold of New York were active in enlisting Biddle's coöperation. Four years later, when the Bank and its president were in disgrace, Biddle recalled his intervention at this time.

[32] Biddle to Barings, Apr. 1, 1837, Biddle Papers.

[33] Ward to Barings, Mar. 29, 1837, Baring Papers.

[34] Bates to Jaudon, May 2, 1837, Baring Papers.

[35] From the London *Times* of Apr. 29, 1837, quoted by the *New York Spectator*, June 12, 1837. In addition to the Bank's bonds, similar issues were made by the Bank of the Manhattan Company, the Morris Canal and Banking Company, Girard's Bank, and by banks in Boston and perhaps elsewhere. See Bates to Jaudon, May 13, 1837, Baring Papers.

[36] Massachusetts Legislative Papers, House, 1838, I, *Doc. 21*, p. 19. Report dated Feb. 8, 1838.

[37] Ogilby to Palmerston, Sept. 18, 1837, F. O. (5).

[38] J. S. Bassett, *Correspondence of Andrew Jackson*, V, 474–498.

[39] U. S. Treasury. *Circulars*, 1793–1842. *Circular* of Oct. 17, 1837.

[40] *New York Shipping and Commercial List*, Dec. 16, 1837.

[41] U. S. Treasury, *Circulars*, 1793–1842. *Circular* of Oct. 19, 1837.

[42] Barings to Jaudon, Jan. 21, 1837, Baring Papers.

[43] U. S. Treasury, *Circulars*, 1793–1842. *Circular* of June 1, 1838.

[44] *Niles' Register*, LII (1837), 182.

[45] Ward to Barings, Mar. 24, 1837, Baring Papers.

[46] Biddle to Hamilton, May 22, 1837, Biddle Papers.

[47] At this time Baring Brothers and Company did not indicate disapproval of this course. It is doubtful if they anticipated the speculative withholdings of cotton which later developed and they could hardly have anticipated their size. Incidentally they too had been interested in controlling the coffee market a few years earlier and therefore could have had no serious objections to Biddle's scheme in principle. On Sept. 29, 1837, Baring Brothers and Company wrote to Ward: "We may now give you our views generally which are that owing to the depressed state of credit on your side individual merchants will not be able to move the cotton crop and the banks will become the shippers for them . . . we wish to place our selves in relation with the following banks so as to have a fair share of this description of business. The banks are the Union Bank of New Orleans, the Bank of Louisiana, and the Consolidated Association, also the Bank of the United States."

[48] Biddle to Roberts, July 31, 1837, Biddle Papers.

[49] Ogilby to Palmerston, Sept. 18, 1837, F. O. (5).

[50] A. Jaudon to Bates, May 1, 1837 and S. Jaudon to Bates, June 19, 1837, Baring Papers.

[51] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., pp. 419–420. All the statistical data on cotton shipments are from this source.

[52] *Ibid.*, p. 461.

[53] Bates to Jaudon, Feb. 14, 1837 and Biddle to Baring Brothers and Company, July 31, 1837, Baring Papers.

[54] Biddle to Sergeant, Jan. 29, 1838, Biddle Papers.

[55] Humphreys to Biddle, Dec. 1, 1837, Biddle Papers.

[56] Biddle to Humphreys, Feb. 15, 1838, Biddle Papers.

[57] Ward to Baring Brothers and Company, Sept. 23, 1837, Baring Papers.

[58] *London Morning Herald*, Dec. 2, 1837. Quoted in the *New York Spectator*, Jan. 15, 1838.

[59] Biddle to Carson, Oct. 3, 1837; Biddle to Rogers, Oct. 7, 1837; and Biddle to McCulloch, Nov. 1. 1837, Biddle Papers. The last-mentioned let-

ter contains a broad hint to McCulloch to see the Maryland Loan Commissioners with a view to having them make use of the Agency. This was apparently not successful. In Dec. 1840, the Bank had among its assets only about $400,000 worth of Maryland bonds.

[60] Biddle to Rawlings, Sept. 29, 1837, Biddle Papers. Report of the Fund Commissioners of Illinois, Dec. 26, 1838, p. 4, in *Reports Made to the Senate and House of Representatives of Illinois*, 1838. *Messages of the Governor*, Dec. 13, 1839, pp. 22–23 and May 27, 1837, pp. 4–5 in *Reports Made to the Senate and House of Representatives of Illinois*, 1839. Report on the *Illinois and Michigan Bonds*, Dec. 1844, *Reports Made to the Senate and House of Representatives of Illinois*, 1844.

[61] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., p. 420.

[62] *Ibid.* Biddle to Adams, Dec. 10, 1838, pp. 404–408.

[63] *Ibid.* Biddle to Clayton, Apr. 8, 1841, p. 477.

[64] *Niles' Register*, LII (1837), 182. Biddle's third letter to J. Q. Adams, May 13, 1837.

[65] Biddle to Colt, Sept. 20, 1837, Biddle Papers.

[66] Biddle to Davis, Oct. 27, 1837, Biddle Papers.

[67] Biddle to Cooper, Nov. 21, 1837, Biddle Papers.

[68] *New York Spectator*, Apr. 12, 1838. Biddle to J. Q. Adams, Apr. 5, 1838.

[69] Sergeant to Biddle, Apr. 11, 1838, Biddle Papers.

[70] A. Gallatin, *Writings*, III, 400.

[71] Prime, Ward and King to Barings, May 15, 1838, Baring Papers.

[72] Bray Hammond, "The Chestnut Street Raid on Wall Street, 1839," *Quarterly Journal of Economics*, LXI (1946–1947), 606.

[73] *Hunt's Merchants' Magazine*, X, 77.

[74] *New York Spectator*, Apr. 12, 1838.

[75] *New York Spectator*, Apr. 12, 1838. Biddle to Adams, Apr. 5, 1838.

[76] *Niles' Register*, LIV (1838), 322.

[77] (London) *Circular to Bankers*, Feb. 23, 1838.

[78] Barings to Prime, Ward and King, Nov. 13, 1838, Baring Papers.

[79] U. S. Treasury, Letters to Foreign Bankers, 1834–1842. II (MS), National Archives, Washington, Woodbury to Rothschilds, July 9, 1838.

[80] Biddle to Poinsett, Dec. 31, 1838, Biddle Papers.

[81] Ward to Barings, Oct. 31, 1838, Baring Papers.

[82] C. C. Alexander, "A History of State Banking in Mississippi" (MS), Oxford, Miss., 1931, pp. 53–55. W. L. Meadows, Jr., "The Union Bank of Mississippi" (MS), Library of the University of Mississippi, 1949. These bonds were sold by commissioners who acted for the Union Bank. Interest and principal were payable in London. Installments of the payments due were scheduled for Nov. 1, 1838, Jan. 1, 1839, Mar. 1, 1839, May 1, 1839, and July 1, 1839.

[83] Biddle to Jaudon, Aug. 31 and Oct. 2, 1838, Biddle Papers.

[84] Biddle to E. R. Biddle, Aug. 22, 1838, Biddle Papers. In this letter Nicholas Biddle reluctantly informed E. R. Biddle that he could not help him.

[85] W. L. Jenks, "Michigan's Five Million Dollar Loan," *Michigan History Magazine*, XV (1931), 575–637. Some other useful sources are: Report of

the Minority Committee on the Five Million Loan, Documents of the House of Representatives of Michigan, 1840, II, 514 ff.; Special Message Concerning the five million loan, Joint State Documents of the Senate and House of Representatives of Michigan, 1841, *Doc. 8*, pp. 266–311; Report of the Joint Committee on the five million loan, Joint State Documents of the Senate and House of Representatives of Michigan, 1843, *Doc 11*, pp. 415–439; and Joint State Documents, 1845, *Doc. 15.* In the numerous letters bearing on the transactions between the Bank and the Canal Company there is a note of acerbity that was not customary. The letters indicate the strain under which Nicholas Biddle was working. Perhaps they reflect an uneasiness over his cousin's apparent intention to use the Bank to extricate him from a difficult financial situation.

[86] Report of the Fund Commissioners Relative to State Bonds Sold, Dec. 6, 1839, *Doc. 3*, p. 128. Report, Dec. 12, 1839, *Doc. 5*, p. 142. Report, Dec. 21, 1839, *Doc. 8*, pp. 154–155. Report, Dec. 16, 1839, *Doc. 15*, p. 179. Report, Dec. 18, 1839, p. 178. Report, Feb. 7, 1840, *Doc. 22*. Report, Feb. 20, 1840, *Doc. 26*, p. 294. *Documents of the Senate of Indiana*, 1839–1840.

[87] Biddle to E. R. Biddle, Nov. 10, 1838 and Jan. 16, 1839, Biddle Papers.

[88] *The* [Jackson] *Mississippian*, Sept. 28, 1838. A committee representing three New Orleans banks wrote to Biddle on June 18, 1838. His reply was dated Sept. 8.

[89] *Bicknell's* [Philadelphia] *Reporter*, Sept. 4, 1838.

[90] Biddle to Cowperthwaite, Sept. 22, 1838, Biddle Papers.

[91] Biddle to Cowperthwaite, Jan. 26, 1839, Biddle Papers.

[92] *The New York Spectator*, Dec. 3, 1838. The notice was issued about Nov. 30.

[93] Biddle to Davis, Mar. 29, 1839, Biddle Papers.

[94] Ward to Barings, Apr. 2, 1839, Baring Papers.

[95] *Niles' Register*, LVII (1839–1840), 18. From the *New York Express*.

[96] Hottinguer and Company to Cowperthwaite, May 14, 1839, Baring Papers.

[97] Hottinguer and Company to Barings, Sept. 11, 1839, Baring Papers.

[98] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., p. 489.

[99] *Ibid.*, Cowperthwaite to Biddle, Mar. 23, 1841, p. 488.

[100] Ward to Barings, Nov. 8, 1839, Baring Papers. Mr. Bray Hammond takes the view that the "purpose was piratical." See "The Chestnut Street Raid on Wall Street, 1839," *Quarterly Journal of Economics*, LXI (1946–1947), 605–618. In extenuation of the Bank it should be noted that its specie reserves were low and dwindling. At New York the Bank was heavily in debt to the state banks, who, with the best of reasons, were beginning to have misgivings about the Bank. Under the semi-panic conditions prevailing at this time, it would have been dangerous for the Bank to remain in debt to its state bank competitors. The officers knew, what others may not have been aware of, that the large credit balance relative to the state banks both at Philadelphia and for the Bank as a whole, were illusory. This became apparent within the next year. The Bank failed with large uncollectible balances owing to it in the South. This writer takes the view that the large sale of post notes and foreign bills of exchange at this time was a futile and stupid act of desperation.

Interbank Relations and Specie Holdings in 1839 (000 omitted)

| | *At New York* | | *At Philadelphia* | | *The Total Bank* | |
|---|---|---|---|---|---|---|
| *Date* | *Relation to State banks* | *Specie* | *Relation to State banks* | *Specie* | *Relation to State banks* | *Specie* |
| May | −$626 | $170 | +$3,901 | $1,910 | +$4,018 | $2,420 |
| June | −560 | 183 | +2,731 | 1,729 | +2,871 | 2,373 |
| July | +22 | 290 | +2,982 | 1,330 | +3,603 | 1,959 |
| Aug. | +103 | 314 | +3,998 | 768 | +4,718 | 1,325 |
| Sept. | +494 | 708 | +3,883 | 1,165 | +4,995 | 1,983 |
| Oct. | +81 | 305 | +4,654 | 565 | +5,296 | 1,592 |

Source: Pennsylvania, House and Senate *Journals.*

[101] Prime, Ward and King to Barings, Sept. 21, 1839, Baring Papers.
[102] *London Morning Chronicle,* Aug. 2, 1839.
[103] (London) *Circular to Bankers,* Aug. 23, 1839.
[104] (London) *Circular to Bankers,* Jan. 18, 1839 and June 21, 1839.
[105] Baring Papers. *Circular* of Apr. 29, 1840.
[106] K. D. Bosch, *Nederlandse Beleggingen in de Verenigde Staten* (Amsterdam-Brussel: Elsevier, 1948), p. 49.
[107] *Hunt's Merchants' Magazine,* III (1840), 457.
[108] Memorandum by Biddle. Address to the Citizens of Pennsylvania, Biddle Papers.
[109] *New Orleans Price Current,* Apr. 4, 1840 and July 3, 1840. See also the *Mobile Commercial Register and Patriot,* Mar. 7, 1840 and Mar. 14, 1840.
[110] Ward to Barings, Apr. 24, 1840, Baring Papers.
[111] Barings to Ward, Mar. 19, 1840, Barings to Hottinguer, Mar. 31, 1840, and *New York Shipping and Commercial List,* Apr. 15, 1840, Baring Papers.
[112] Prime, Ward and King to Barings, Apr. 20, 1840, Baring Papers.
[113] U. S. Treasury. Woodbury to Smith, Oct. 9, 23, and 30, 1840, Letters to Banks, IV.
[114] *New Orleans Price Current,* Jan. 25, 1840.
[115] *Niles' Register,* LVIII (1840), 262. *Circular* of June 23, 1840.
[116] Bates to W. Appleton, Jan. 2, 1840, Baring Papers.
[117] Humphreys and Biddle were in a difficult situation at this time. This firm had borrowed heavily to provide Jaudon and the Agency with funds. They were plagued with arrival of bills of exchange, which came on steamships, drawn against cotton coming to Liverpool on the slower sailing vessels. The 60-day bills often had to be paid before the cotton arrived. The Liverpool firm took a pessimistic view of the cotton speculations which Nicholas Biddle was carrying on at this time through Rockwell and S. V. S. Wilder. Humphreys to Biddle, Dec. 5, 1839 and Apr. 25, 1839, Biddle Family Papers, 1820–1840.
[118] Humphreys to Biddle, June 1, 1840, Biddle Papers.
[119] Minute Books of the Philadelphia Bank (MS), Philadelphia National Bank, Philadelphia, Dec. 24, 1840.
[120] Minutes of the Board of Directors of the Bank of the Manhattan Company (MS), Bank of the Manhattan Co., New York, VI, Dec. 4, 1840.
[121] Minute Books of the Philadelphia Bank, Jan. 14, 1841.

[122] Prime, Ward and King to Barings, Feb. 8, 1841, Baring Papers.

[123] *Kendall's Expositor*, I (1841), 323.

[124] *Niles' Register*, LIX (1840–1841), 405.

[125] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., p. 469.

[126] *Kendall's Expositor*, I (1841), 19.

[127] Pennsylvania, House *Journal*, 1841, II, *Doc. 93*, p. 177.

[128] The motivation for the support of the Bank in the legislature is obscure. Perhaps the conditional reprieve was connected with the decision favorable to the Bank in the case of *Alberti* vs. *the President and Directors of the Bank of the United States*. This decision held that the Bank was legally correct in its position on its obligation to pay specie. Hazard, *op. cit.*, IV (1841), 193–202.

[129] U. S., *House Exec. Doc. 226*, 29 Cong., 1 sess., pp. 414–416.

[130] The Howard Lewis Papers (MS), Pennsylvania Historical Society, Philadelphia.

[131] Bank of the United States Liquidation Papers (MS), Pennsylvania Historical Society, Philadelphia.

[132] Minute Book, Bacon Trust (MS), Pennsylvania Historical Society, Philadelphia.

## Notes to Chapter XII: In Retrospect

[1] H. C. Lodge, ed., *The Works of Alexander Hamilton* (New York and London, 1904), III, 338.

[2] *Memoirs of John Quincy Adams* (Philadelphia, 1875), IV, 499.

[3] Bogart correctly suggests that much of the criticism of the Bank was founded on resentment against specific economic situations rather than on constitutional objections to the "centralizing tendency of the federal government." The criticism of the Bank in the Ohio legislature in 1820 and 1821 was based, in Bogart's opinion, on awareness of trade and currency problems rather than political theories. E. L. Bogart, "Taxation of the Second Bank of the United States," *The American Historical Review*, XVII (1911–1912), 317.

[4] H. Adams, *History of the United States of America* (New York, 1891), II, 131.

[5] "The Bank shares its privileges with some hundred other banks, it is not much of a *monopoly*, and the truth is that the distribution of the revenue would be extremely difficult and often oppressive were not its operations smoothed by the machinery of the Bank. While at the same time New York suffers no inconvenience from it. But our worthy friends of New York have a certain metropolitan magnificence which requires that every thing should center there." Biddle to Gallatin, Nov. 30, 1830, Biddle Papers.

[6] U. S., *Register of Debates*, 21 Cong., 1 sess. (1830–1831), VII, 53.

[7] H. Adams, *Life of Albert Gallatin* (Philadelphia, 1880), p. 639.

[8] U. S., *Register of Debates*, 21 Cong., 1 sess. (1830–1831), VII, 54.

[9] Massachusetts, Public Documents, 1884, *Report of the Bureau of Labor Statistics*, 1885, Part IV, p. 317 ff. United States, Department of Labor, Bureau of Labor Statistics, *Bulletin 499*, *History of Wages in the United*

*States from Colonial Times to 1928* (Washington: Government Printing Office, 1929), pp. 58 ff. U. S., *Register of Debates,* 22 Cong., 1 sess. (1831–1832), VIII, Pt. I, p. 218. This point has been recently confirmed by some very thorough and still unpublished research by Dr. Robert Layer.

[10] U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. I, p. 1003. The idea that the Bank tended to equalize interest rates between the East and West has been put forward more recently by Catterall and also by Chapman and Westerfield. See the latter's *Branch Banking* (New York, 1942), p. 32.

[11] U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. II, pp. 1874–1875.

[12] Biddle to McKim, Mar. 1, 1830, Biddle Papers.

[13] The late Lord Keynes quite correctly said that there had been a "degree of 'management'" in the conduct of central banks for a century or more (*Treatise*, II, 205). The Bank's record of partial disregard of specie reserves as the sole criterion for the determination of loan policy and, equally important, its intervention in the foreign exchange market amply support this idea. Contemporaries never doubted that there was management. Some, like T. W. Ward, thought that there was too much of it. In a letter to Appleton in 1832, he suggested that the anticipated new charter for the Bank forbid increases in loans when specie reserves fell below five millions.

[14] U. S., *Register of Debates*, 23 Cong., 1 sess. (1833–1834), X, Pt. I, pp. 1075 and 1082.

[15] U. S., *Sen. Doc. 17*, 23 Cong., 2 sess. Tyler's report dealt extensively with this point.

[16] U. S., *Register of Debates*, 21 Cong., 1 sess. (1830–1831), VII, 63–64. The Bank, said Benton, had "abstracted" $12,815,798.10 from the New Orleans branch alone from the date of its inception to 1831. "The Southern States, with their thirty millions of annual exports in cotton, rice, and tobacco, and the Western States, with their twelve millions of provisions and tobacco . . . with three fifths of the marketable productions of the Union, are not able to sustain thirty specie paying banks; while the minority of the States north of the Potomac, without any of the great staples for export, have above four hundred such banks. . . For this calamitous reversal of the natural order of things, the Bank of the United States stands forth pre-eminently culpable." *Ibid.*, pp. 64–65.

[17] Biddle to Greene, Apr. 11, 1825, Biddle Papers.

[18] W. G. Sumner, *Andrew Jackson* (New York, 1910), p. 311.

[19] U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. I, p. 144.

[20] Biddle to Gallatin, July 23, 1830, Biddle Papers.

[21] *The Writings of Albert Gallatin* (Adams, ed.), III, 343–344.

[22] U. S., *Register of Debates*, 23 Cong., 1 sess. (1833–1834), X, Pt. I, p. 1058.

[23] *Ibid.*, 21 Cong., 1 sess. (1830–1831), VII, 51.

[24] C. Raguet, *A Treatise on Currency and Banking* (London, 1839), p. 126.

[25] U. S., *Register of Debates*, 23 Cong., 2 sess. (1834–1835), XI, Pt. I, p. 29.

[26] U. S., *Register of Debates*, 23 Cong., 1 sess. (1833–1834), X, Pt. I, p. 1101.

[27] *Ibid.*

[28] U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., pp. 27–30.

[29] U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. I, p. 539.

[30] U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., pp. 12–14.

[31] U. S., *Register of Debates*, 22 Cong., 1 sess. (1831–1832), VIII, Pt. II, pp. 1874–1875.

[32] U. S., *Sen. Doc. 13*, 22 Cong., 1 sess., *Report of the Secretary of the Treasury*, Jan. 23, 1832.

[33] U. S., *Register of Debates*, 21 Cong., 1 sess. (1830–1831), VII, 51, 72–74.

[34] "In Europe, there is more capital than there are means of employing it – In this country we have more things to do than we have capital to do them with. They are rich and indolent, we are poor and industrious. If therefore the European will lend us his capital to work upon, let us take our time to return it, and be content with a lower interest than we can borrow the money at home. Where is the harm? Don't both partners benefit?" Biddle to Gales, Aug. 20, 1830, Biddle Papers.

[35] *Richardson's Messages and Papers of the Presidents*, II, 581.

[36] As early as Nov. 1829 Biddle advocated rechartering the Bank before Mar. 4, 1833. Biddle to Lewis, Nov. 15, 1829, Biddle Papers.

[37] Biddle's desire to keep out of politics did not prevent him from wanting to appoint B. M. Crowninshield to the board of directors in 1824 on the ground that he wanted a Republican on the board. Doubtless Crowninshield was the kind of Republican that Biddle found congenial. Biddle to Crowninshield, Jan. 5, 1824, Biddle Papers.

[38] The directors of the Bank said that these sums were mainly for routine items such as the printing of bank notes. Critics stressed expenditures on such items as the printing of pamphlets, and loans to editors and publishers as well as to congressmen. The public was given an exaggerated impression of the amount spent on publicity. However, Biddle's friend and colleague did not take the matter lightly. On the contrary, he protested vigorously against both the amount and the duration of the loan to printers when the matter came to his attention. He definitely wanted no responsibility for this action and suggested that he might resign from the board of directors on this issue. Cadwalader to Biddle, March 14, 1832. Cadwalader Papers.

[39] U. S., *Sen. Doc. 17*, 23 Cong., 2 sess., pp. 320–332. Politicians found the theme of corruption a favorite. Pennsylvania politicians repeated the charge alleging that Biddle and his friends at Harrisburg kept the opposition in ignorance of plans for rechartering the institution and bribed legislators to vote for it. Reincorporation, they said, had little popular support. As in the earlier case, there was a little validity to the accusation. Nevertheless, the evidence, such as a fifteen-dollar retainer for Thaddeus Stevens, does not seem impressive. Pennsylvania *House Journal*, 1836, vol. II, Report of Mar. 24, 1837.

[40] A memorandum among the Biddle Papers states that even Amos Kendall had at some time or other received a loan of $5375 from the Bank.

[41] A. Kendall, *Autobiography* (William Stickney, ed.), p. 376.

[42] T. Roosevelt, *Thomas Hart Benton* (Boston, 1895), p. 116.

[43] U. S., *Register of Debates*, 23 Cong., 1 sess. (1833–1834), X, Pt. I, pp. 1092–1093.

[44] *Ibid.*, pp. 105–106.

[45] The Bank was empowered to sell the bonds subscribed by the federal government, but it could not sell more than two millions in any one year without giving notice to the Secretary of the Treasury of intent to sell. The Sinking Fund was given the right to purchase United States 6's at par and 3's at 65. U. S., *Statutes at Large*, III, 267–269. Data on the amount and timing of the sales of securities by the Bank are to be found in U. S., *House Reports, 460*, 22 Cong., 1 sess., pp. 60–74.

[46] U. S., *House Exec. Doc. 210*, 25 Cong., 2 sess., p. 1.

[47] Tennessee, *Senate Journal*, 1842. Governor's Message, Oct. 4, 1842.

[48] Pennsylvania, *House Journal*, 1841, II, Doc. 93, p. 175. Biddle to Penrose, Jan. 31, 1839, Biddle Papers.

[49] Levy to Biddle, Jan. 17, 1838, Biddle Papers.

[50] (London) *Circular to Bankers*, Dec. 3, 1841.

[51] N. Appleton, *Remarks on Currency and Banking* (Boston, 1841), pp. 26 and 39.

[52] Barings to Prime, Ward and King, Mar. 19, 1840, Barings to Davis, Feb. 20, 1840, Barings to Ward, Feb. 29, 1840, Baring Papers.

[53] Pennsylvania, *House Journal*, 1835. I, 85.

[54] Pennsylvania, *Senate Journal*, 1841, II, *Doc. 2*, p. 11.

[55] A. Kendall, *Autobiography*, p. 422.

[56] C. F. Dunbar, *Theory and History of Banking* (5th ed., New York and London, 1929), p. 235.

[57] A. Gallatin, *Writings*, III, 392 and 390. One of the minor consequences of the demise of the Bank was the disappearance of an exceptionally well-organized mechanism for the handling of domestic bills of exchange. The promissory note had become the accepted means of short-term financing by 1860, perhaps because it was suitable to the decentralized banking system of the 1840's and 1850's. It is hardly necessary to mention that when the United States began to develop central banking in 1914 an attempt was made to revive the domestic bill market which had been a large and flourishing aspect of banking in the 1830's.

# Sources of Data for Charts

*Chart I.* Cotton Production (millions of pounds): *Cotton Crop of the United States, 1790-1911,* by George K. Holmes, U. S. Department of Agriculture, Bureau of Statistics, Circular 32, p. 6.

Tobacco Exports (millions of pounds): *Tobacco Crop of the United States, 1612-1911,* by George K. Holmes, U. S. Department of Agriculture, Bureau of Statistics, Circular 33, p. 9.

Rice Production (millions of pounds): *Rice Crop of the United States, 1712–1911,* by George K. Holmes, U. S. Department of Agriculture, Bureau of Statistics, Circular 34, pp. 7–8.

*Chart II.* Coal Production (000 tons): *The First Century and a Quarter of the American Coal Industry* (Pittsburgh, 1942), pp. 432–433, by H. N. Eavenson. These figures are larger and indicate a less rapid rate of growth than do the data given in the U. S. Geological Survey, *Mineral Resources of the United States* (1923), II, 549. Eavenson's figures show a slight decline in 1834 and 1838 as compared with the preceding year, while data of the Geological Survey indicate a decline only in 1834.

Cotton Consumption (000 bales): *Cotton Crop of the United States, 1790–1911,* by George K. Holmes, U. S. Department of Agriculture, Bureau of Statistics, Circular 32, p. 6.

Salt Inspected at Onondaga Salt Springs, New York (0,000 bushels). New York, *Sen. Doc. 89,* 1863, vol. 5.

Vessels Built in the United States (000 gross tons): U. S. Dept. of Commerce, *Annual Report of the Commissioner of Navigation for the fiscal year ending June 30, 1921,* pp. 171–172.

Wheat Flour Inspections in Baltimore (0,000 barrels): *New York Shipping and Commercial List,* May 14, 1828, and February 16, 1831, *Niles' Register,* LIX (1840–41), 288 and LXIII (1843–44), 306.

*Chart III.* Tolls on New York Canals (000 dollars): *Niles' Register,* LXII (1842), 322 and New York *Assembly Docs.,* various dates.

Tolls of the Schuylkill Navigation Company (000 dollars): Hazard's *United States Commercial and Statistical Register,* II (1840), 60.

Receipts (tolls, fines, water rents) of the Ohio and Miami Canals (000 dollars): *Niles' Register,* LXII (1842), 37. From a report of the Ohio Board of Public Works, Jan. 8, 1842.

Passengers on the Camden and Amboy Railway (000 passengers): *Hunt's Merchants' Magazine,* III (1840), 355.

*Chart IV.* U. S., *House Doc. 92,* 15 Cong., 2 sess.; U. S., *Sen. Doc. 17,* 23 Cong., 2 sess.; and scattered volumes of the serial set of United States government documents, the Journals of the House of Representatives and Senate of Pennsylvania, as listed in A. R. Hasse's *Index of Economic Material in Documents of the States, Pennsylvania* (Washington, 1919), Pt. I, p. 326.

*Chart V.* Specie Movements: Reports of the Secretary of the Treasury. Various dates. 60 Day Bills on London, *New York Shipping and Commercial*

*List*, various dates. Foreign position of the Bank: Sources same as for Chart IV.

*Chart VI.* Sources same as for Chart IV.

*Chart VII.* Sources same as for Chart IV.

*Chart VIII.* See Chapter V.

*Chart IX.* Stock Prices: The *New York Shipping and Commercial List*, various dates.

*Chart X.* Prices of Consols and Pennsylvania 5's (London), *Course of Exchange*, various dates. Overend and Gurney discount rates on first class bills, *Parliamentary Papers*, 1857 (2 sess.), vol. X, 1, pp. 463–464.

# INDEX

*There are no entries under Second Bank of the United States; for related topics see the topics themselves.*